

AR90

# WELL CONNECTED



< **On the cover:** *Enbridge Income Fund has interests in several environmentally friendly power generation projects—three wind power projects in western Canada and NRGreen, which generates electricity using waste heat from Alliance Canada’s compressor stations. Pictured on the cover is NRGreen’s waste-heat recovery facility at Loreburn, Saskatchewan. The Fund’s green assets sell power under long-term power purchase contracts with strong credit-worthy counterparties generating stable and sustainable long-term cash flow. The Fund continues to actively pursue additional green opportunities that fit its investment criteria.*

**Forward-looking Information:** *This Annual Report includes references to forward-looking information. By its nature this information applies certain assumptions and expectations about future outcomes, so we remind you it is subject to risks and uncertainties that affect every business, including ours. The more significant factors and risks that might affect future outcomes for Enbridge Income Fund are listed and discussed in the “Forward-looking Information” and risk sections of our public disclosure filings, including Management’s Discussion & Analysis, available on SEDAR at [www.sedar.com](http://www.sedar.com).*

# AN INVESTMENT YOU CAN COUNT ON

With strategically positioned assets, Enbridge Income Fund connects predictable earnings and cash flow with growth opportunities like the Bakken Formation, B.C. shale gas and green energy. In 2009, our units generated a rate of return to unitholders of 41.5%, maintaining our leadership position among our peers.

*Enbridge Income Fund has a 50% interest in the Canadian portion of the Alliance System, which transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia and the Bakken region in North Dakota to delivery points near Chicago, Illinois.*

## WE ARE SITUATED IN REGIONS OF GROWING PRODUCTION

The Bakken Formation will be a significant source of crude oil production growth. We're already benefiting from the Saskatchewan System expansion, and Phase II will add 125,000 barrels per day of capacity. The Canadian side of Bakken alone is currently estimated to contain at least 1 billion barrels of technically recoverable crude oil.



### Dominant in Bakken

Enbridge Income Fund has a 100% interest in the Saskatchewan System, the dominant pipeline in the Bakken region in southeastern Saskatchewan.

*The Fund's Saskatchewan System consists of crude oil and liquids pipelines that connect producing fields in southern Saskatchewan and southwestern Manitoba with Enbridge Inc.'s mainline pipeline to the United States.*



**Positioning** The Fund's three solid businesses are well positioned to provide predictable, low-risk cash flow in the years to come.

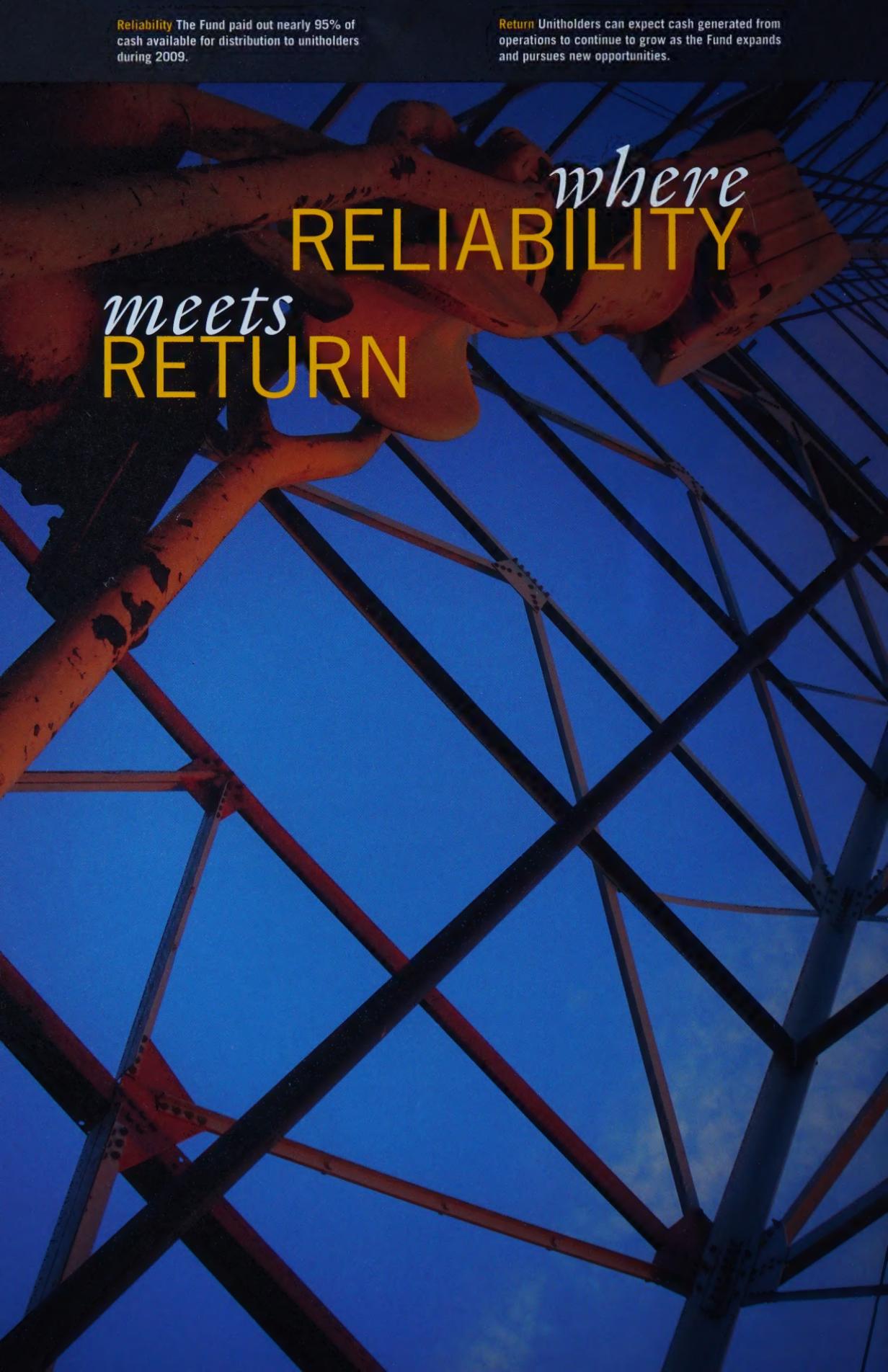
**Potential** The Fund's assets in British Columbia's shale gas regions and Saskatchewan's light oil fields are ideally positioned to capture significant organic growth opportunities.



*where*  
POSITIONING  
*meets*  
POTENTIAL

**Reliability** The Fund paid out nearly 95% of cash available for distribution to unitholders during 2009.

**Return** Unitholders can expect cash generated from operations to continue to grow as the Fund expands and pursues new opportunities.



*where*  
**RELIABILITY**  
*meets*  
**RETURN**

## PREDICTABLE EARNINGS AND CASH FLOW YOU CAN COUNT ON

The Alliance Pipeline is fully contracted through 2015, delivering steady and predictable cash flow. Alliance is also well positioned to reap the rewards of one of North America's largest energy plays—British Columbia shale gas—particularly from the liquids-rich Montney play.



### Cash Distribution per Unit

(Canadian dollars)

On the strength of steady cash flow, distributions to unitholders have increased by 38.6% since the Fund's inception in 2003 for a compound annual growth rate of 5.6%.

\* Annualized



*Abundant shale deposits under development in northeastern British Columbia's Montney and Horn River plays provide Alliance Canada with significant potential growth opportunities.*



**Gordon G. Tallman**

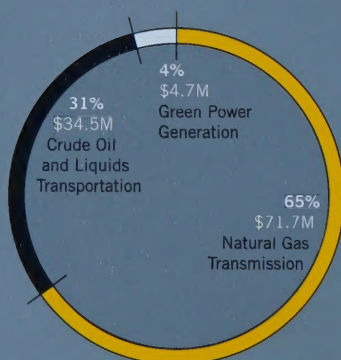
Chair, Board of Trustees



**James A. Schultz**

President, Enbridge Management Services Inc.

## LETTER TO UNITHOLDERS



### 2009 Cash Flow Contributions\*

The Fund's three strong businesses—Natural Gas Transmission, Crude Oil and Liquids Transportation and Green Power Generation—all delivered solid value for unitholders in 2009.

Enbridge Income Fund delivered another year of solid performance in 2009 on the strength of its diversified and growing portfolio of strategically located assets, which hold great promise for growth in the years to come.

Recurring cash available for distribution increased as a result of organic expansion projects in each of its three core businesses: Natural Gas Transmission, Crude Oil and Liquids Transportation and Green Power Generation. Total distributions to unitholders increased to \$83.7 million following an increase in the monthly distribution of 11.6% in January 2009. Total returns to unitholders for the year ended December 31, 2009 were 41.5%.

\* Excluding Corporate charges



## Financial Highlights <sup>1</sup>

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars, except per unit amounts)</i>		
Revenues	<b>314.8</b>	297.0
Earnings	<b>13.0</b>	21.9
Per Unit <i>(dollars per unit)</i>	<b>0.38</b>	0.63
Cash Provided by Operating Activities	<b>94.2</b>	98.1
Cash Available for Distribution	<b>90.1</b>	91.2
Cash Distributions Declared	<b>83.7</b>	74.9
Per Unit <i>(dollars per unit)</i>	<b>1.152</b>	1.032

We believe that this strong performance is a reflection of the Fund's value proposition which emphasizes the generation of reliable cash flow from long-lived energy infrastructure and low-risk organic growth. Importantly, our key assets are located in emerging regions of crude oil and natural gas production—particularly shale plays in northeastern British Columbia and southern Saskatchewan. New pipeline infrastructure is required to move growing production from these regions to market. We have already secured additional investment projects that will serve to grow operating cash flow in the near term, and the Fund's assets are very well positioned to take advantage of future development opportunities in these regions.

## Proposed Corporate Restructuring

In late 2009, we announced a proposed restructuring of the Fund to take effect prior to the imposition of the federal government's specified investment flow-through (SIFT) tax on January 1, 2011. Under the proposed restructuring, public unitholders would exchange their trust units, which collectively represent a 28% economic interest in the Fund, for shares of a taxable Canadian corporation to be called Enbridge Income Fund Holdings Inc. (EIFH). After the restructuring, the Fund would cease to be a SIFT and would not be subject to the SIFT tax. Enbridge would also hold a significant interest in EIFH, which would maintain an investor value proposition similar to that of the Fund—providing a safe and dependable high cash payout to its investors.

A committee of the independent directors serving on our Board of Trustees (Special Committee) was formed to review the proposed restructuring with the benefit of input and advice from independent financial and legal advisors. The Special Committee's independent review, their recommendation of the proposal and, ultimately, the approval of unitholders at the 2010 unitholder meeting are key steps in the process to achieve a restructuring that is fair and beneficial to unitholders.

A detailed description of the proposed restructuring is anticipated to be included in the Management Information Circular mailed to all unitholders in advance of the unitholder meeting. We believe that the proposed restructuring should serve to preserve value for unitholders going forward and provide the necessary financial flexibility and access to capital that the Fund will require to grow in the future, whether organically or via acquisition. Financial flexibility and access to capital on the best possible terms will be important for the Fund given its potential for growth. Near-term initiatives and longer-term development opportunities in each business segment are described below.

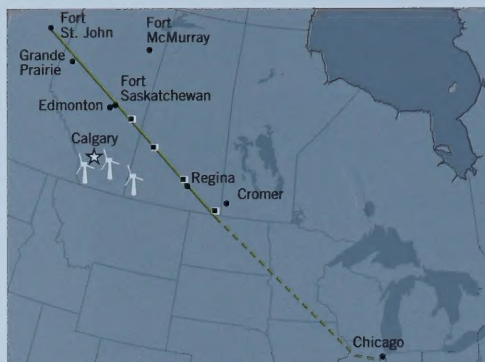
## Alliance Canada

Alliance Canada, which provides a high-pressure, liquids-rich natural gas transmission service from western Canada to the Chicago market hub, is making good progress in expanding its network and strengthening its competitive position.

<sup>1</sup> Financial Highlights have been extracted from financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

## Operating Highlights

Year ended December 31,	2009	2008
Average Daily Throughput Volume		
Alliance Canada (millions of cubic feet per day)	<b>1,601.0</b>	1,609.0
Saskatchewan System <sup>1</sup> (thousands of barrels per day)		
Westspur System	<b>197.8</b>	177.8
Saskatchewan Gathering System	<b>136.7</b>	123.7
Weyburn System	<b>35.9</b>	34.7
Virden System	<b>16.4</b>	26.4
Green Power <sup>2</sup> (thousands of megawatt hours produced)	<b>367.0</b>	312.5



**Natural Gas Transmission** Enbridge Income Fund has a 50% interest in the Canadian portion of the Alliance System, which transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia and other areas along the system to delivery points near Chicago, Illinois.

In January 2009, the BCX Expansion Project commenced operation, enhancing capacity for natural gas receipts originating in northeastern British Columbia. Alliance Canada has the strategic positioning and financial strength and flexibility to take full advantage of the excellent development opportunities in this region, where the Montney and Horn River shale formations combined have an estimated 50 to 75 trillion cubic feet of natural gas reserves.

Alliance's geographical positioning, competitive toll structure and ability to ship liquids-rich natural gas also position it well to benefit from development of associated gas in the Bakken oil formation in southern Saskatchewan.

Alliance continues to progress the development of new receipt capacity along its pipeline route and its first-ever delivery service into Canadian markets. The Gathering Receipt Service (GRS) will provide a gathering service from northeastern British Columbia to south-central Alberta. The Canadian Delivery Service (CDEL) will deliver gas to Canadian markets from receipt points in northwestern Alberta and northeastern British Columbia, providing customers with more choice and flexibility at the most competitive tolls. Thus far, Alliance has signed agreements with shippers to develop four new receipt point interconnections, which will provide for initial GRS capacity of more than 50 mmcf/d. The expected in-service date for these facilities is the fourth quarter of 2011. We expect that demand for services like these will continue to grow as production out of northeastern British Columbia ramps up.

## Saskatchewan System

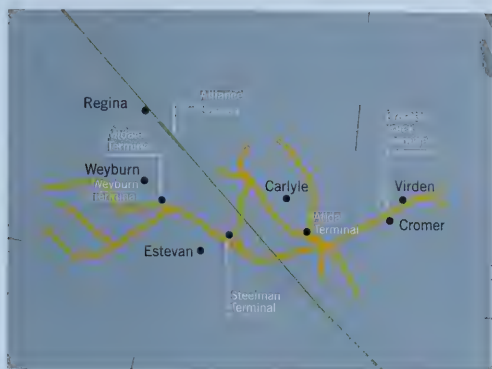
The Fund's crude oil and liquids pipelines system in Saskatchewan and Manitoba is expected to provide some of its best opportunities for long-term organic growth due to the system's strategic location in the heart of the Bakken shale formation, which is fast becoming one of North America's most significant sources of oil and gas production growth. The Canadian side of the Bakken, where the Saskatchewan System is located, is estimated to contain at least 1 billion barrels of recoverable oil based on current technology. We expect this resource will grow significantly with advances in drilling and production technology.

In August 2009, we began construction of Phase II of the Saskatchewan System expansion, a \$120 million project that will increase crude oil capacity across the system by approximately 125,000 barrels per day and will help reduce capacity constraints at several locations. With a planned in-service date in the fourth quarter of 2010, the expansion will generate significant additional cash flow for the Fund in the near term.

Given the very high potential for further crude oil production growth in this region, we expect that there will be a need for further pipeline capacity in the Bakken. We plan to aggressively pursue any such opportunities and take full advantage of our unique position in this region.

<sup>1</sup> Totals are not presented as the same volumes can be transported through a combination of the pipelines comprising the Saskatchewan System.

<sup>2</sup> NRGreen's Loreburn, Estlin and Alameda facilities began operations in May, July and November of 2008, respectively. The Kerrobert facility has been in operation since 2006.



**Crude Oil and Liquids Transportation** *Enbridge Income Fund* has a 100% interest in the Saskatchewan System, which consists of crude oil and liquids pipelines that connect producing fields in southern Saskatchewan and southwestern Manitoba with Enbridge Inc.'s mainline pipeline to the U.S.



**Green Power Generation** *Enbridge Income Fund* has interests in several environmentally friendly power generation projects—three wind power projects in western Canada and NRGGreen, which generates electricity using waste heat from four of Alliance Canada's compressor stations.

## Green Power Generation

Increasing interest in clean energy technologies on the part of government policymakers and the public at large is also expected to provide growth opportunities for the Fund.

The Fund has interests in three wind power projects in Alberta and Saskatchewan and four waste-heat electricity generating stations in Saskatchewan. These facilities, which have the capacity to generate up to 91 MW of emissions-free electricity, are supported by long-term, fixed-price power purchase agreements and are performing very much in line with expectations. We continue to explore opportunities to expand these facilities.

NRGreen, which operates the waste-heat recovery facilities located along the Alliance Pipeline, continues to look for opportunities to use this technology at other compressor stations along the Alliance Pipeline route and, more generally, at other facilities that employ gas-fired turbines for compression.

We will continue to focus on optimizing the performance of existing Green Power Generation assets while pursuing development of new infrastructure that fits with the Fund's goal of producing electricity from alternative energy sources.

## Outlook

The Fund's strategy of pursuing organic growth and expansion opportunities in its existing Natural Gas Transmission, Crude Oil and Liquids Transportation and Green Power Generation businesses is consistent with its objective of providing a predictable flow of distributable cash from stable energy infrastructure.

As noted above, Alliance Canada and the Saskatchewan System are particularly well positioned to benefit from development of some of the highest potential oil and gas plays in North America. Our Green Power Generation business should also benefit from growing demand for environmentally friendly sources of electric power.

Our three solid businesses offer unitholders an attractive value proposition: strategically positioned energy infrastructure; high-quality, long-lived assets; predictable operating cash flows; and good prospects for organic growth in both the near and longer term. The proposed restructuring, if approved, will further help ensure that the Fund has access to cost-effective capital to successfully execute its strategies and deliver on this value proposition.

With all this, and the sponsorship of and strategic alignment with Enbridge Inc., we are confident that the Fund will continue to provide solid value for unitholders well into the future.

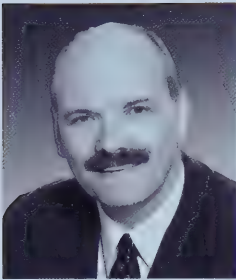
**Gordon G. Tallman**  
Chair, Board of Trustees

**James A. Schultz**  
President, Enbridge Management Services Inc.

March 19, 2010

# CORPORATE GOVERNANCE

## Trustees



**Richard H. Auchinleck**  
*Calgary, Alberta*

Principal Occupation:  
Corporate Director



**Catherine M. (Kay) Best**  
*Calgary, Alberta*

Principal Occupation:  
Corporate Director



**J. Richard Bird**  
*Calgary, Alberta*

Principal Occupation:  
Executive Vice President,  
Chief Financial Officer &  
Corporate Development,  
Enbridge Inc.



**J. Lorne Braithwaite**  
*Calgary, Alberta*

Principal Occupation:  
Corporate Director

The members of the Board of Trustees of Enbridge Commercial Trust (ECT) govern the affairs of Enbridge Income Fund.

The Administrator and Trustees have continued to assess the Fund's governance policies and practices in light of regulatory initiatives in Canada that have been adopted to improve corporate governance, as well as the evolving standards and expectations for governance in the Canadian capital markets. The Administrator is of the view that the Fund's governance structures, systems and practices conform with the governance rules and guidelines established by the Canadian Securities Administrators to the extent consistent with the structure of the Fund and ECT and the terms of the Fund Trust Indenture, the ECT Trust Indenture and the other agreements to which the Fund and ECT are parties.



**M. Elizabeth Cannon**  
Calgary, Alberta

Principal Occupation:  
Dean, Schulich School  
of Engineering,  
University of Calgary



**David T. Robottom**  
Calgary, Alberta

Principal Occupation:  
Executive Vice President,  
Corporate Law,  
Enbridge Inc.



**Gordon G. Tallman**  
Calgary, Alberta (Chair)

Principal Occupation:  
Corporate Director



**Stephen J. Wuori**  
Calgary, Alberta

Principal Occupation:  
Executive Vice President,  
Liquids Pipelines,  
Enbridge Inc.

The Administrator and the Trustees of Enbridge Commercial Trust (ECT) are committed to maintaining a high standard of corporate governance for the Fund.

## Administrators

The Administrator of the Enbridge Income Fund and the Manager of ECT is Enbridge Management Service Inc., a wholly owned subsidiary of Enbridge Inc.

### **J. Richard Bird** Director

Principal Occupation: Executive Vice President, Chief Financial Officer & Corporate Development, Enbridge Inc.

### **David T. Robottom** Director

Principal Occupation: Executive Vice President, Corporate Law, Enbridge Inc.

### **Stephen J. Wuori** Director

Principal Occupation: Executive Vice President, Liquids Pipelines, Enbridge Inc.

### **James A. Schultz** President

Principal Occupation: Senior Vice President, Green Energy, Enbridge Inc.

### **John K. Whelen** Vice President, Business Development & Chief Financial Officer

Principal Occupation: Senior Vice President, Corporate Development, Enbridge Inc.

### **David K. Wudrick** Treasurer

Principal Occupation: Director, Treasury, Enbridge Inc.

### **Leigh Kelln** Controller

Principal Occupation: Director, Financial Reporting, Enbridge Inc.

### **James E.R. Lord** Corporate Secretary

Principal Occupation: Senior Legal Counsel, Enbridge Inc.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2009

This Management's Discussion and Analysis (MD&A) for Enbridge Income Fund (the Fund) should be read in conjunction with the consolidated financial statements and notes thereto contained in the Fund's 2009 Annual Report. The Fund prepared its consolidated financial statements for the year ended December 31, 2009 in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All financial measures presented in this MD&A are expressed in Canadian dollars, unless otherwise indicated. Additional information, including the Fund's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com). This MD&A is dated February 1, 2010.

## Consolidated Results

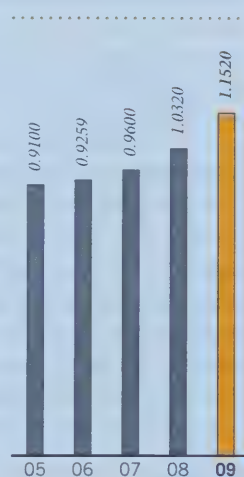
Year ended December 31,	2009	2008	2007
<i>(millions of Canadian dollars, except where otherwise noted)</i>			
Cash Provided by Operating Activities	94.2	98.1	80.6
Cash Available for Distribution <sup>1</sup>	90.1	91.2	73.5
Cash Distributions Declared <sup>2</sup>	83.7	74.9	69.6
Cash Distributions Declared Per Unit <i>(dollars per unit)</i> <sup>2</sup>	1.152	1.032	0.960

<sup>1</sup> See "Non-GAAP Measures". Refer to page 30 for the reconciliation to Cash Provided by Operating Activities.

<sup>2</sup> Includes distributions declared on trust units and ECT preferred units.

In 2009, the Fund's earnings benefited from a full year of operations on projects within all three operating segments that were put into service during the prior year. These projects included the BC Expansion in Alliance Canada, the Westspur expansion in the Saskatchewan System and the Loreburn, Estlin and Alameda waste heat recovery facilities within the Green Power segment. For the year ended December 31, 2009, cash distributions declared of \$83.7 million (2008—\$74.9 million) represented 92.9% (2008—82.1%) of cash available for distribution. The variance in distribution is primarily due to a one-time item in 2008 whereby Alliance Canada received the Calpine Energy Services Canada Partnership (CESCA) bankruptcy settlement of \$6.1 million (\$4.4 million net of tax) in the first quarter of 2008. After removing the impact of the CESCA settlement received in the prior year, cash provided by operating activities and cash available for distribution for the year ended December 31, 2009 have increased relative to 2008. The Fund anticipates continued growth in operating earnings and cash flows from the \$120.0 million Phase II Saskatchewan Capacity Expansion, which is currently under construction and expected to be completed during the fourth quarter of 2010.

The Fund pays cash distributions on a monthly basis to unitholders of record on the last business day of each month with distributions payable on or about the 15th day of the month following the declaration. In the last five years, the Fund has declared the following distributions.



### Annual Cash Distribution per Unit <sup>1,2</sup>

<sup>1</sup> Distributions include both a return on capital and a return of capital.

<sup>2</sup> Figures show distributions on both the Fund's trust units and ECT preferred units.

# Financial Performance

## EARNINGS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Alliance Canada	<b>59.3</b>	63.1
Saskatchewan System	<b>19.7</b>	17.5
Green Power	<b>4.0</b>	1.1
Corporate	<b>(70.0)</b>	(59.8)
Earnings	<b>13.0</b>	21.9

Earnings for the year ended December 31, 2009 decreased by \$8.9 million from the prior year. This decrease is largely due to the receipt of the CESCA bankruptcy settlement included in Alliance Canada's earnings for the first quarter of 2008 in respect of CESCA's repudiated capacity commitment on the Alliance Pipeline. The final settlement, inclusive of accrued interest, was \$6.1 million (\$4.4 million net of tax).

After removing the impact of the CESCA settlement from the prior year, the Fund's earnings for 2009 were \$4.5 million lower than the prior year. The decrease in earnings is a result of offsetting factors. Factors which increased earnings include earnings growth in the Saskatchewan System attributable to the Westspur Expansion which was in service for a full 12 months in 2009 compared with seven months in 2008, higher earnings contributions from the waste heat facilities, and an unrealized after-tax derivative gain of \$0.9 million (2008—\$0.6 million loss). The non-cash derivative gain results from the change in fair value of derivative instruments held to fix the price of power on some of the Fund's wind power projects. Factors which decreased earnings include lower allowance oil sales on the Virden and Weyburn Systems as well as lower throughput on the Virden System. Additionally, Corporate costs in the current year were higher due to increased incentive fees and Enbridge Commercial Trust (ECT) preferred unit distributions which resulted from an increase in the Fund's monthly distributions in January 2009, from \$0.086/unit to \$0.096/unit.

## FORWARD-LOOKING INFORMATION

*In the interest of providing the Fund's unitholders and potential investors with information about the Fund, its subsidiaries and joint ventures, including management's assessment of the Fund, its subsidiaries' and joint ventures' future plans and operations, certain information provided in this MD&A constitutes forward-looking statements or information (collectively, "forward-looking statements"). This information may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "anticipate", "expect", "project", "estimate", "forecast", "plan", "intend", "target", "believe" and similar words suggesting future outcomes or statements regarding an outlook. In particular, forward-looking statements included or incorporated by reference in this document include, but are not limited to, statements with respect to:*

- *expected costs related to projects under construction;*
- *expected scope and in-service dates for projects under construction;*
- *expected timing and amount of recovery of capital costs of assets;*
- *expected capital expenditures;*
- *expected future levels of demand for the Fund's services;*
- *expected future earnings and cash flows;*
- *expected future actions of regulators;*
- *expected future corporate restructuring;*
- *expected future distributions to unitholders and the taxability thereof; and*
- *expected cash available for distribution.*

*Although the Fund believes that these forward-looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Material assumptions include assumptions about: the expected supply and demand for crude oil, natural gas and natural gas liquids; prices of crude oil, natural gas and natural gas liquids; expected exchange rates; inflation; interest rates; the availability and price of labour and pipeline construction materials; operational reliability; customer project approvals; maintenance of support and regulatory approval for the Fund's projects; anticipated in-service dates and weather. Assumptions regarding the expected supply and demand of crude oil, natural gas and natural gas liquids, and the prices of these commodities, are material to and underlay all forward-looking statements. These factors are relevant to all forward-looking statements as they may impact current and future levels of demand for the Fund's services. Similarly, exchange rates, inflation and interest rates impact the economies and business environments in which the Fund operates, may impact levels of demand for the Fund's services and cost of inputs, and are therefore inherent in all forward-looking statements. Due to the interdependencies and correlation of these macroeconomic factors, the impact of any one assumption on a forward-looking statement cannot be determined with certainty, particularly with respect to expected earnings and associated per unit amounts, or estimated future distributions. The most relevant assumptions associated with forward-looking statements on projects under construction, including estimated in-service dates, and expected capital expenditures include: the availability and price of labour and pipeline construction materials; the effects of inflation on labour and material costs; the effects of interest rates on borrowing costs; and the impact of weather and customer and regulatory approvals on construction schedules.*

*The Fund's forward-looking statements are subject to risks and uncertainties pertaining to operating performance, regulatory parameters, project approval and support, weather, economic and competitive conditions, exchange rates, interest rates, commodity prices and supply and demand for commodities, including but not limited to those risks and uncertainties discussed in this MD&A and in the Fund's other filings with Canadian securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these are interdependent and the Fund's future course of action depends on management's assessment of all information available at the relevant time. Except to the extent required by law, the Fund assumes no obligation to publicly update or revise any forward-looking statements made in this MD&A or otherwise, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements, whether written or oral, attributable to the Fund or persons acting on the Fund's behalf, are expressly qualified in their entirety by these cautionary statements.*

## **NON-GAAP MEASURES**

*This MD&A contains references to cash available for distribution. Cash available for distribution represents cash available to fund distributions on trust units and ECT preferred units, as well as for debt repayments and reserves. This measure is important to unitholders as the Fund's objective is to provide a predictable flow of distributable cash to unitholders. Please refer to the Cash Available for Distribution reconciliation on page 30. Cash available for distribution is not a measure that has standardized meaning prescribed by Canadian GAAP and is not considered a GAAP measure. Therefore, this measure may not be comparable with similar measures presented by other issuers.*

## Fund Strategy

### FUND'S OBJECTIVE

The Fund is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund commenced operations on June 30, 2003 and is administered by Enbridge Management Services Inc. (EMSI or Manager or Administrator), a wholly owned subsidiary of Enbridge Inc. (Enbridge). EMSI also serves as the manager of Enbridge Commercial Trust (ECT), a subsidiary of the Fund. The Fund has investments in businesses that operate crude oil and natural gas pipelines as well as waste heat recovery and wind power facilities.

The Fund's objectives are to provide a predictable flow of distributable cash and to increase, where prudent, cash distributions on a per trust unit basis.

### CORE BUSINESS

The Fund's activities are carried out through three operating segments:

- Alliance Canada includes the Fund's 50% interest in the Canadian portion of the Alliance System. The Alliance System is a natural gas pipeline system, comprised of Alliance Canada and Alliance US, that transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois.
- Saskatchewan System owns and operates crude oil and liquids pipeline systems primarily connecting producing fields in southeastern Saskatchewan and southwestern Manitoba with Enbridge's mainline pipeline, for transportation to the United States.
- Green Power includes entities that produce electricity via alternative energy sources and consists of a 50% interest in each of NRGreen and the SunBridge wind project, as well as a 33% interest in each of the Magrath and Chin Chute wind projects.

### STRATEGY

In order to achieve the Fund's objectives, the Manager pursues a low-risk business, which involves:

- maximizing the efficiency and profitability of its existing assets through representation on the Boards and/or management committees governing the Fund's assets;
- pursuing organic growth and expansion opportunities in its existing businesses; and
- acquiring and developing new energy infrastructure businesses that are complementary and in keeping with the risk and return profile of its existing business.

#### Alliance Canada

Alliance Canada manages its pipeline assets and related infrastructure with the objective of maximizing shipping capacity, excelling in operating performance and increasing the competitiveness of its tolls. By focusing on its core business, Alliance Canada has continued to meet or exceed its targets in all key areas of operational performance which include: availability, reliability, safe operations, throughput and efficiency. Alliance Canada has successfully implemented several pipeline optimization projects and will continue to pursue further optimization initiatives, new service offerings and other growth opportunities all with the aim of increasing the long-run competitiveness of its tolls and demand for its services.

#### Saskatchewan System

The Saskatchewan System operates its pipelines and supporting assets with the objective of providing reliable, cost effective transportation solutions for its customers. The Saskatchewan System is focused on addressing the increased crude oil production and growing demand for pipeline capacity in the areas served by its systems through expansion and development initiatives. Transportation by pipeline is generally more cost effective than other alternatives and as a result, the Saskatchewan System is currently completing further expansion of its facilities to meet the growing demand for its services which has resulted from increased development of the Bakken, a resource play that spans parts of Saskatchewan and North Dakota.

## Green Power

The objective of Green Power is to produce reliable, cost effective electricity via alternative energy sources to ensure stable, predictable cash flow streams for the Fund. Power production by the Green Power segment is supported by long-term Power Purchase Agreements (PPAs) and power swap agreements which serve to mitigate the risk of fluctuating power prices thereby stabilizing cash flows.

To successfully pursue the strategies discussed above, the Fund must mitigate certain business risks. These risks, and the Fund's strategies for managing them, are described under Risk Management.

## COMPETITIVE ADVANTAGE

Asset positioning and operational excellence are key to the successful execution of the Fund's strategy. The Fund's assets are well positioned to take advantage of emerging sources of liquids and natural gas supply in Western Canada. The combination of Alliance Canada's proximity to shale gas plays in northeastern British Columbia and the strategic positioning of the Saskatchewan System crude oil assets in the Bakken play in southeastern Saskatchewan is expected to provide the Fund with organic growth opportunities.

The Fund is focused on operational excellence with a view to adding value for customers. The Fund seeks to provide value to customers in a variety of innovative ways, including optimizing the operations of existing facilities and expanding existing systems to meet customer needs for incremental transportation capacity. Recent examples of innovative responses to customer requirements include the Saskatchewan System Capacity Expansion currently underway and Alliance Canada's proposed delivery and receipt services, for which open seasons were held during 2009.

## CORPORATE RESTRUCTURING

Absent any initiatives to restructure, enacted income tax legislation related to trusts will result in the Fund being subject to the Canadian government's specified investment flow-through (SIFT) tax beginning on January 1, 2011.

In November 2009, the Fund's Administrator announced that it had recommended to the Board of Trustees a proposed restructuring of the Fund that would take effect prior to the imposition of the SIFT tax on January 1, 2011. The proposed restructuring would involve the exchange by public unitholders of their trust units, which collectively represent a 28% economic interest in the Fund and its subsidiaries, for shares of a taxable Canadian corporation to be called Enbridge Income Fund Holdings Inc. (EIFH), plus a small amount of cash. The Fund would cease to be a SIFT and would not be subject to the SIFT tax under the proposed restructuring.

Public unitholders would retain their current proportionate economic interest in the Fund, held indirectly through EIFH. It is anticipated that EIFH would maintain an investor value proposition similar to the Fund's current proposition—providing the bulk of the return to its investors in the form of a high cash payout which is safe and dependable. EIFH would also benefit from a modest amount of growth potential supported by further development of the Fund's asset base, and potentially by further Fund acquisitions of third party or Enbridge assets with comparable risk to the Fund's existing asset base. The scope of activities of EIFH would be limited to investment in the Fund.

The Administrator's proposed restructuring would be subject to approval by unitholders and regulators, as applicable. A committee of independent trustees of the Fund, assisted by independent legal and financial advisors, is reviewing the Administrator's proposal in light of potential alternatives and will provide its recommendation to public unitholders.

## Selected Operating Highlights

Year ended December 31,	2009	2008
Average Daily Throughput Volume		
Alliance Canada (millions of cubic feet per day)	<b>1,601.0</b>	1,609.0
Saskatchewan System <sup>1</sup> (thousands of barrels per day)		
Westspur System	<b>197.8</b>	177.8
Saskatchewan Gathering System	<b>136.7</b>	123.7
Weyburn System	<b>35.9</b>	34.7
Virden System	<b>16.4</b>	26.4
Green Power <sup>2</sup> (thousands of megawatt hours produced)	<b>367.0</b>	312.5

<sup>1</sup> Totals are not presented as the same volumes can be transported through a combination of the pipelines comprising the Saskatchewan System.

<sup>2</sup> NRGreen's Loreburn, Estlin and Alameda facilities began operations in May, July and November of 2008, respectively. The Kerrobert facility has been in operation since 2006.

Alliance Canada transportation deliveries for the year ended December 31, 2009, including Authorized Overrun Service (AOS), averaged 1,601 million cubic feet per day (mmcf/d) (20.8% in excess of firm capacity of 1,325 mmcf/d) compared with 1,609 mmcf/d (21.4% in excess of firm capacity) in 2008. AOS refers to the physical capacity available on the Alliance Canada pipeline, over and above the contracted firm capacity. The AOS service is provided to shippers at no additional cost, aside from the cost of associated fuel requirements. Therefore, AOS does not impact earnings; however, it does increase the competitiveness of Alliance Canada's tolls.

Throughputs for the Saskatchewan System have increased in 2009 compared with the prior year primarily due to the Westspur expansion which was in operation for a full 12 months in 2009 compared with seven months in 2008. Higher throughputs do not directly impact earnings on the Saskatchewan Gathering and Westspur Systems since these systems are cost of service based. However, a portion of the increased throughput on these systems is attributable to the Westspur expansion, which will generate additional earnings on the incremental capital invested. Throughput levels directly impact earnings of the Weyburn and Virden systems, which operate on a basis similar to a common carrier and charge a market-based toll per barrel of crude oil transported.

The increase in energy production by Green Power was reflective of a full year of operations from NRGreen's three newest waste heat facilities, Loreburn, Estlin and Alameda, which were put into service in May, July and November of 2008, respectively. The increase in production from the new facilities was partially offset by several unexpected outages due to equipment failures at the facilities during the year, for which warranty and insurance claims are being pursued. Additionally, the energy produced by two of the wind power projects is lower than the prior year's production due to a lower wind resource in 2009.

## Alliance Canada

### OVERVIEW

Alliance Canada consists of approximately 1,560 kilometres of the Alliance System's mainline beginning near Gordondale, Alberta and connecting to Alliance US at the Canada/United States border near Carnduff, Saskatchewan. Alliance Canada also includes the Alliance System's lateral pipelines, which connect the mainline to a number of upstream receipt points, primarily at natural gas processing facilities in northwestern Alberta and northeastern British Columbia, and related infrastructure.

The Alliance System is designed to transport 1,325 mmcf/d of natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois. Alliance Canada has transportation service agreements (TSAs) with shippers for 100% (2008–100%) of its available firm transportation capacity. The initial term of these agreements expires in December 2015, except for 1.5% of contracted transportation capacity, which expires in March 2010 and is expected to be remarketed. The TSAs are designed to provide Alliance Canada with a steady and predictable cash flow stream through

2015. Additional transportation capacity is available to shippers for no additional cost other than the cost of the associated fuel requirements through Alliance Canada's AOS. Beginning in November 2010, each TSA may be renewed on five years notice for successive one-year terms, beyond the initial 15-year term, at the option of the shipper.

In December 2008, Alliance Canada completed construction of the expansion project in British Columbia that was built in response to shipper demands for increased receipt capacity on the Taylor-Aitken Creek lateral system in northeastern British Columbia. The project was completed in line with budget and involved construction of the Taylor Junction compressor station which includes a 7,700 horsepower turbine, a control and maintenance building with remote monitoring equipment and a high-pressure gas cooler. This project did not increase the mainline capacity but has enabled Alliance to ship an incremental 150 mmcf/d of gas out of the area.

Tolls and tariffs for Alliance Canada are regulated by the National Energy Board (NEB). Alliance Canada's TSAs are designed to provide toll revenues sufficient to recover prudently incurred costs of service, including operating and maintenance costs, costs of indebtedness, an allowance for income tax, capital taxes, depreciation and an allowed return on equity of 11.26% after tax, based on a deemed 70/30 debt-to-equity ratio. Each shipper's charges are proportionate to the shipper's contracted capacity. Toll adjustments, based on variances between the cost of service forecast used to calculate the toll and the actual cost of service, are made annually. Following consultation with shippers tolls are filed with the regulator for approval.

Depreciation expense on the transmission plant included in the cost of service is based on negotiated depreciation rates contained in the TSAs while the depreciation expense in the financial statements is recorded on a straight-line basis of 4% per annum. The negotiated depreciated rates are generally less than the straight-line rates in the earlier years and higher than straight-line depreciation in later years of the TSAs. This results in the recognition of a long-term receivable, referred to as deferred transportation revenue, expected to be recovered from shippers in subsequent rates. As at December 31, 2009, \$91.5 million (2008—\$79.8 million) was recorded as deferred transportation revenue.

Alliance Canada's maintenance program maintains its productive capacity and helps to ensure the future sustainability of its distributions. The program includes semi-annual inspections of all compressor stations as well as internal corrosion coupon inspections and annual pipe-to-soil surveys, atmospheric inspections, above ground indirect assessments and the repair and replacement of compressor parts. Mainline pipeline inspection is completed on a seven year recurring schedule. Other maintenance performed includes soil resistance surveys and corrosion deficiency reports. Maintenance expenditures may vary from year to year.

## FINANCIAL RESULTS

Year ended December 31,	2009	2008
(millions of Canadian dollars)		
Revenues	224.7	222.1
Earnings	59.3	63.1

Revenue recorded by the Alliance Canada segment of \$224.7 million for the year ended December 31, 2009 is \$2.6 million higher than revenue earned in the comparable period of 2008. Increased revenue resulted primarily from the receipt surcharge related to the Receipt Only Service (ROS) that went into commercial service in January 2009, subsequent to the completion of the BC Expansion project in December 2008. The slight increase in Alliance Canada's base transportation tolls from \$0.859 per million cubic feet (mcf) to \$0.863/mcf effective January 1, 2009 also contributed to the revenue increase.

Earnings reflect a return on equity applied to investment base accounts, as well as an allowance for deemed income and provincial capital taxes on regulated activities. The rate used to calculate the equity return is not expected to change; however, related annual earnings will decline over time as the investment base is depreciated.

Alliance Canada earnings for the year ended December 31, 2009 were lower than the prior year comparable period by \$3.8 million. This decline is primarily due to the receipt of the CESCA bankruptcy settlement of \$6.1 million in the first quarter of 2008. Tax of \$1.7 million associated with the CESCA bankruptcy settlement is included in the Corporate segment for the year ended December 31, 2008. After removing the impact of the CESCA settlement from the prior year, earnings increased by \$2.3 million for the year ended December 31, 2009. This increase reflects a higher allowance for income taxes included in toll revenue partially offset by a lower return on equity resulting from Alliance Canada's depreciating investment base.

## **BUSINESS GROWTH**

### **Proposed Gathering Receipt Service and Canadian Delivery Service**

In June and July 2009, Alliance Canada held concurrent open seasons on a Gathering Receipt Service (GRS) and a Canadian Delivery Service (CDEL). The GRS will provide a gathering service from northeast British Columbia to south-central Alberta. The CDEL would be the first for Alliance Canada, and would deliver gas from northwestern Alberta and northeastern British Columbia to other points along the Alliance Pipeline within Canada.

Following the open seasons, Alliance Canada has signed agreements with shippers to develop three new receipt point interconnections which will provide for initial GRS capacity of 42 mmcf/d. The expected in-service date for these facilities is the fourth quarter of 2011.

## **REGULATORY MATTERS**

### **2010 Toll Filing**

On October 31, 2009, following consultation with its shippers, Alliance Canada filed its 2010 tolls with the NEB. Alliance Canada's 2010 tolls increased slightly from \$0.863/mcf to \$0.894/mcf on January 1, 2010. The increased toll for 2010 reflects higher costs for pipeline integrity projects and pipeline maintenance, which includes a compressor unit control replacement initiative. These increased costs were partially offset by decreases in estimated compressor fuel taxes and utility rates.

## **CAPITAL EXPENDITURES**

Capital expenditures in 2009, representing the Fund's 50% interest, were \$1.7 million (2008–\$23.3 million) including \$1.2 million (2008–\$5.2 million) in maintenance capital expenditures and \$0.5 million (2008–\$18.1 million) in enhancement capital. Capital expenditures in 2009 were focused on the Grande Prairie warehouse expansion, the purchase of capital spares and the completion of the BC Expansion project. Capital expenditures in 2008 primarily related to the implementation of the SAP Core System and the BC Expansion project. In 2010, the Fund expects its 50% share of Alliance Canada's capital expenditures to be approximately \$0.9 million.

## **COMPRESSOR CONTROL PANEL REPLACEMENTS**

Alliance Canada has begun a project to replace control panel equipment currently in operation at seven facility locations. In connection with this project, Alliance Canada has entered into an agreement with a supplier to replace the control panels. This project is expected to be complete by 2013. The costs associated with this project are expected to be recovered through future tolls.

Due to the major outage time required to perform the replacements, Alliance Canada will be replacing other pieces of vital equipment simultaneously. This one-time outage required to complete the replacements is expected to avoid future scheduled outages for major control replacements for an additional 15 years, out to 2028.

## BUSINESS RISKS

The risks identified below are specific to Alliance Canada. General risks that affect the Fund as a whole are described under Risk Management.

### Re-Contracting Risk

The revenue generated by Alliance Canada is derived from tolls that are based on the TSAs which, unless renewed, will terminate at the end of the primary term in November 2015. Beyond the primary term, the decision by shippers to renew will depend on numerous factors, including the level of demand for natural gas in the geographic areas which can be served by pipelines and distribution facilities connected to the Alliance System, the ability and willingness of shippers to meet such demand, the competitiveness of Alliance Canada's toll structure and general market conditions.

Alliance Canada expects that evolving North American gas markets will bring demand for new services and requests for commercial terms that differ from those in the TSAs. Given the advantages that Alliance Canada can provide in operational efficiency, the wide spectrum of operating parameters that the Alliance System can accommodate to transport gas streams of variable heat content or energy value, the proximity to emerging gas developments and the ability to potentially incorporate new deliveries off the system into current or new pipeline systems, hubs and industrial areas, Alliance Canada expects that the Alliance System will be utilized beyond 2015 with a portfolio of contracts and services, including existing shippers under the TSAs as well as new shippers operating under new transportation terms and conditions.

### Recovery of Capital

When the primary term of the TSAs expires, Alliance Canada is expected to have recovered approximately 54% of the capital cost of the Alliance Canada pipeline through depreciation charges collected from shippers. Since there is no guarantee that all shippers will extend their contracts beyond the primary term, the undepreciated capital cost and the deferred transportation revenue may not be recovered as soon as expected. In order to mitigate the risk of non-renewal, there are financial incentives for shippers on the Alliance System to renew their contracts beyond the primary term. Additionally, Alliance Canada continues to focus on ensuring the competitiveness of its tolls and providing a high level of service through system enhancements.

### Competition

The Alliance System faces competition in pipeline transportation from both existing and proposed projects. Any new or upgraded pipelines could provide shippers and competing pipelines greater access to natural gas markets or offer more desirable natural gas transportation services due to location, facilities or other factors. Further, these pipelines could charge tolls or provide service to locations that result in greater net profit for shippers. As a result, upon the expiration of the primary term of the TSAs Alliance Canada may consider alternative arrangements, including entering into agreements with new shippers under new terms and conditions. To remain competitive, Alliance Canada has begun pursuing options to diversify and develop new service offerings. This is evidenced by the new ROS, which went into service beginning in January 2009, and the concurrent open seasons held in June and July of 2009 for the GRS and CDEL services. Alliance Canada continues to work with parties interested in the GRS and CDEL services.

### Exposure to Shippers

Alliance Canada is highly dependent on shippers for revenues from contracted capacity on the Alliance Canada system. Failure of the shippers to fulfill their contractual obligations under the TSAs could have an adverse effect on the cash flows and financial condition of Alliance Canada and could impair the ability of Alliance Canada to meet its debt obligations and make distributions to its limited partners. A prolonged economic downturn in the energy industry, significant reductions in the supply of natural gas in the Western Canada Sedimentary Basin, competition from alternative sources of natural gas supply and from other providers of natural gas transportation services, and the price of and demand for natural gas and natural gas transportation services in markets served by Alliance Canada, among other things, could impact the ability of some or all of the shippers to fulfill their obligations under the TSAs.

### Credit Risk

Currently, approximately 3.4% of firm capacity on Alliance Canada's system is contracted to shippers who do not have an investment grade rating or equivalent strong credit status and are required to post security. These shippers have provided security to Alliance Canada, but in no case does it fully cover more than one year's demand charges under the TSAs. There can be no assurance that the security will be adequate to compensate Alliance Canada if a shipper is unable to fulfill its obligations under its TSA.

### Recovery of Costs

Pursuant to the terms of the TSAs and in accordance with the negotiated toll principles accepted by the NEB, Alliance Canada is permitted to recover from shippers costs incurred in the construction and operation of the Alliance System that are actually and reasonably incurred. There can be no certainty that all costs incurred by Alliance Canada will be recoverable through the transportation tolls. Since transportation tolls are set in advance based on forecast expenses, and adjusted periodically to reflect actual expenses. There is no assurance that the variances in the estimate will be recovered from shippers in subsequent periods, although historically all of these variances have been recovered.

### Dependence on Interconnected Systems and Facilities

The Alliance System operates as an integrated pipeline; therefore, any matters which limit or restrict the ability of Alliance US to operate will equally affect the ability of Alliance Canada to operate. Alliance Canada may have no control over matters which may adversely affect Alliance US. In addition, the debt obligations of Alliance Canada and Alliance US are cross-collateralized. In the event of a default of the debt obligations of either Alliance Canada or Alliance US, the assets of the non-defaulting entity may be used to satisfy the debts of the defaulting entity. The debt obligations of both Alliance Canada and Alliance US also contain default provisions related to the occurrence of certain bankruptcy, insolvency or other adverse events affecting Aux Sable Extraction LP, where those events would have a material adverse effect on Alliance.

There is a significant degree of dependency on Aux Sable Liquid Products LP (Aux Sable), a related party to Alliance Canada through common ownership interest, to satisfy its requirements to provide heat content management services to Alliance US. Should Aux Sable fail to provide heat content management services for any reason, Alliance Canada may experience operational issues, including an interruption or curtailment of transportation service on the Alliance System. It is not possible to predict the extent or duration of these operational problems or their precise financial or operational effect on Alliance Canada.

## Saskatchewan System

The Saskatchewan System transports crude oil from producing fields in southeastern Saskatchewan and southwestern Manitoba, as well as natural gas liquids (NGLs) from the Steelman gas processing plant, to Cromer, Manitoba where the crude oil and NGLs enter Enbridge's mainline pipeline to be transported to the United States.

The Saskatchewan System is comprised of the Saskatchewan Gathering, Westspur, Weyburn and Virden pipeline systems. These crude oil and liquids pipeline systems include approximately 356 kilometres of trunk line, 1,900 kilometres of gathering pipeline and related terminals and tankage facilities. The capacity of each of the Saskatchewan Gathering and the Westspur Systems is 255,000 barrels per day (bpd) and the capacity of the Weyburn and Virden Systems is approximately 47,000 bpd and 37,000 bpd, respectively.

The Saskatchewan Gathering System and the Westspur System are regulated by Saskatchewan Ministry of Energy and Resources (SMER) and the NEB, respectively. Both systems follow the principles for establishing tolls outlined in agreements with shippers, signed in 1985 and which expired in 1995, and now monitor established tolls on a customer complaint basis. The Saskatchewan Gathering System and the Westspur System tolling agreements are based on a cost of service methodology and are designed to provide toll revenues sufficient to recover operating costs, depreciation, deemed interest expense, deemed income tax and to provide an administrative expense allowance as well as a return on the asset base. The rate used to calculate the equity return is not expected to change. However, the rate base upon which

the equity return is calculated will change over time due to depreciation as well as maintenance and enhancement capital additions and expansions. This tolling methodology increases the stability and predictability of cash flows generated by these systems.

The Weyburn and Virden Systems are regulated by SMER and Manitoba Innovation, Energy and Mines, respectively. Rates are established based on historical precedence, signed customer agreements, or both, and are updated to reflect changing market conditions when warranted. As a result, earnings from Weyburn and Virden reflect toll revenue less costs incurred.

The SMER and the NEB exercise statutory authority over various matters such as construction and operations, and may exercise authority over rates and ratemaking agreements with customers and underlying accounting principles. The regulators do not regularly review or approve the rates established by the pipeline systems comprising the Saskatchewan System. However, in the event of a customer complaint, the regulator would review and provide a ruling on the rates in question. There have been no customer toll complaints filed to date for any of the systems comprising the Saskatchewan System.

The Saskatchewan System maintenance program maintains its productive capacity and includes sump tanks, berm and line repairs, piping modifications, and tank and meter repairs. Maintenance expenditures will vary year to year as some maintenance is performed on a cyclical basis. For example, software upgrades are scheduled every five years. Tank repairs occur annually, although the extent of repairs will fluctuate each year based on the age and size of the tank. The program also includes annual system integrity management which consists of cathodic protection, installation and maintenance, inline inspections and repairs, station and tank inspection and repairs, as well as chemical injections which serve as corrosion inhibitors.

## FINANCIAL RESULTS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Revenues	<b>78.8</b>	68.0
Earnings	<b>19.7</b>	17.5

Revenues for the year ended December 31, 2009 were \$78.8 million compared with \$68.0 million for the year ended December 31, 2008. This higher revenue is a reflection of increased throughput, on all systems except the Virden System, and higher tolls following the completion of the Westspur expansion, which was placed into service in June 2008. Revenues for the Saskatchewan Gathering and Westspur Systems primarily reflect the cost of service tolling mechanisms on these systems, whereby an increase in costs results in increased revenue. Increased revenue in 2009 on the Saskatchewan Gathering and Westspur Systems was partially offset by lower allowance oil sales on the Virden and Weyburn Systems. Allowance oil sales for the year ended December 31, 2009 for the Virden and Weyburn Systems have been impacted by decreased commodity prices compared with 2008. Allowance oil sales related to oil collected in kind by the Saskatchewan System to compensate for measurement losses on the pipelines. Additionally, the Virden System had experienced higher than usual throughput in the prior year due to capacity restrictions on the Westspur System which was under-going an expansion.

Earnings for the year ended December 31, 2009 were positively impacted by growth in the rate base resulting from the expansion of the Westspur System and from new customer connections on the Saskatchewan Gathering System. This earnings growth was partially offset by lower earnings contributions from allowance oil sales on the Virden and Weyburn Systems.

## SASKATCHEWAN SYSTEM CAPACITY EXPANSION

Phase I of the Saskatchewan System Capacity Expansion, was completed on-time and was put in service in June 2008 at a total cost of \$33.3 million. This expansion increased capacity on the Westspur System by 34% for all Westspur crude oil and NGL lines into Cromer, Manitoba.

Phase II of the Saskatchewan System Capacity Expansion includes three separate projects that will help reduce capacity constraints at several locations in Saskatchewan. The Benson Expansion project on the Saskatchewan Gathering System includes terminal modifications, pump upgrades and installation of new pipe. The Bryant to Steelman Expansion project on the Westspur System involves installation of new crude oil pipe, and station and terminal upgrades. Lastly, the Steelman Crude/NGL Conversion project involves the conversion of an existing NGL line to crude oil on the Westspur System, a new NGL pipeline and pump station on the Saskatchewan Gathering System, as well as the conversion of an existing crude oil line to relocate NGLs from the BP Steelman Gas Plant to the NGL line at Alida, Saskatchewan. Collectively, the projects are expected to increase crude oil capacity across the system by approximately 125,000 bpd at a cost of approximately \$120.0 million.

Construction was completed on the pipeline portion of the Benson Expansion project in the fourth quarter of 2009. However, this pipeline will not be placed into service until late 2010, which is when the associated facilities are expected to be complete. At December 31, 2009, capital expenditures of approximately \$24.0 million have been incurred in relation to the Saskatchewan System Phase II Expansion. Regulatory applications for the remaining projects are expected to be filed in the first quarter of 2010. All three projects comprising the Saskatchewan System Phase II Expansion are currently expected to be complete by the fourth quarter of 2010.

## CAPITAL EXPENDITURES

Capital expenditures for the year ended December 31, 2009 were \$37.2 million (2008—\$27.4 million) including \$5.6 million (2008—\$4.4 million) in maintenance capital and \$31.6 million (2008—\$23.0 million) in enhancement capital. Expenditures were lower when compared with the expected expenditures for 2009 of \$46.4 million. The \$9.2 million variance from the forecasted spending was primarily a result of a modification to the scope of the Phase II Saskatchewan System Capacity Expansion, as well as delays of planned expenditures and customer connections into 2010. Expenditures in 2009 were directed primarily to Phase II of the Saskatchewan System Capacity Expansion as well as sustaining capital infrastructure through pipeline integrity and tank and line repairs. Phase I of the Saskatchewan System Capacity Expansion, on the Westspur System and the completion of new customer connections comprised the majority of capital expenditures in 2008.

The Saskatchewan System anticipates capital expenditures of approximately \$131.5 million in 2010. Of this amount, approximately \$9.9 million is allocated to maintenance capital expenditures, for annual repair and inspection programs. Additionally, \$25.8 million is allocated to growth enhancement capital, primarily to support new business customer connections. The remaining \$95.8 million is expected to be spent on the three projects comprising Phase II of the Saskatchewan System Capacity Expansion.

## BUSINESS RISKS

The risks identified below are specific to the Saskatchewan System. General risks that affect the Fund as a whole are described under Risk Management.

### Competition

The Saskatchewan System faces competition in pipeline transportation from other existing or proposed pipelines as well as other forms of transportation, most notably trucking. These alternative transportation options could charge rates or provide service to locations that result in greater net profit for shippers with the effect of forcing the Saskatchewan System to lower its transportation rates to avoid losing shippers, thereby reducing cash flow. The Saskatchewan System manages exposure to shippers and competition by

ensuring the shipping rates are competitive and by providing a high level of service. Further, the Saskatchewan System's right-of-way and ongoing expansion efforts have created a competitive advantage. The Saskatchewan System will continue to focus on increasing efficiencies and economically expanding the capacity of its facilities in order to meet its shippers' growing demand.

### **Demand for Services**

Operations and tolls for the Saskatchewan Gathering and the Westspur Systems are based on expired agreements with certain crude oil shippers and tolls are monitored on a customer complaint basis. The majority of the volumes shipped on these systems are transported on a basis similar to a common carrier, with no specific on-going volume commitments. There is no assurance that shippers will continue to utilize these systems in the future or transport volumes on similar terms or at similar tolls.

### **Credit Risk**

The Saskatchewan System's trade receivables consist primarily of amounts due from companies operating in the oil and gas exploration and development industry. The credit risk associated with these receivables is mitigated by utilization of credit exposure limits where appropriate, and requiring less creditworthy shippers to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements.

## **Green Power**

### **WIND POWER**

Green Power includes the Fund's interest in three wind power projects including a 50% interest in the SunBridge project at Gull Lake, Saskatchewan and a 33% interest in each of the Magrath and Chin Chute projects in southern Alberta. Collectively referred to as Wind Power, the SunBridge, Magrath and Chin Chute wind power projects have a combined capacity of 71 megawatts (MW). SunBridge consists of 17 turbines, each with a capacity of 0.66 MW for a total of 11 MW. The power from Sunbridge is delivered into the Saskatchewan power grid and is sold under a long term PPA which expires in 2022. Each of the Magrath and Chin Chute wind projects utilize 20 turbines, each with a capacity of 1.5 MW, for a total capacity of 30 MW per project. The energy produced at Magrath and Chin Chute is delivered into the Alberta power grid. The Fund has entered into long-term agreements to substantially fix the price received for its share of production on these projects. The Magrath contract expires on November 30, 2024 while the Chin Chute contracts expire on December 31, 2017.

The Fund entered into a contract to sell all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath projects to Enbridge. The contract has an initial 20-year term ending October 1, 2026 and provides for a fixed price of \$5 per tonne of avoided CO<sub>2</sub> emissions plus applicable taxes, based on a negotiated formula for converting megawatts generated to tonnes of emissions reduced. Emission credits associated with the power sold by the Sunbridge project are included in the price of the power and automatically transferred to the purchaser.

Each of the Magrath and Chin Chute wind power projects receive \$10 per megawatt hour (MWh) for electricity generated for a 10-year term under federal government support programs for renewable power. The Magrath project will continue to receive Wind Power Production Incentive (WPPI) payments until August 16, 2014, and the Chin Chute project will continue to receive ecoENERGY Renewable Power Program Incentive (eRPP) payments until March 31, 2017.

Various inspection and monitoring methods as well as ongoing maintenance protocols are utilized to maintain the safety and integrity of the wind turbines and related facilities, and to minimize system disruptions. The Wind Power assets are subject to regular maintenance programs to maintain the life of the turbines. Given the infancy of this industry, the timing and magnitude of maintenance capital expenditures will likely vary from year to year.

## NRGREEN

NRGreen operates four non-regulated waste heat recovery facilities located in Saskatchewan, along the Alliance Pipeline. The first facility located at Kerrobert, Saskatchewan has been operating since December 2006. In 2008, NRGreen completed construction on three additional facilities in Loreburn, Estlin and Alameda, Saskatchewan. These facilities began operations in May, July and November of 2008, respectively. Electricity is generated by harnessing the waste heat produced by Alliance Canada's gas turbines at its compressor stations and converting it to electrical energy. With four waste heat recovery facilities in operation, NRGreen's facilities can generate 20 MW of power.

The power generated from all four of the NRGreen facilities is sold under long-term PPAs. The PPAs expire ten years after the in-service date for each facility. However, each PPA permits two five-year renewal notices at NRGreen's election. These may be renewed successively to provide an additional ten-year extension to the initial PPA.

Regular maintenance of NRGreen's facilities is performed concurrently with the Alliance Canada semi-annual inspection of the Kerrobert, Loreburn, Estlin and Alameda compressor stations.

## FINANCIAL RESULTS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Revenues	11.3	6.9
Earnings	4.0	1.1

Green Power revenues for the year ended December 31, 2009 have increased by \$4.4 million compared with the prior year comparable period. Approximately \$2.2 million of this increase relates to a full year revenue contribution from NRGreen's Loreburn, Estlin and Alameda waste heat facilities, which were put into service in May, July and November of 2008, respectively. The remaining variance in revenues is attributed to an unrealized non-cash derivative gain of \$1.3 million in the current year, compared with an unrealized non-cash derivative loss of \$0.9 million in 2008.

Green Power earnings for 2009 are also impacted by the unrealized non-cash derivative gain of \$1.3 million (2008—a loss of \$0.9 million). The Green Power segment has entered into derivative instruments to mitigate fluctuations in cash flow generated by some of its wind power projects. A portion of one derivative instrument has not been designated as a hedge for accounting purposes. As a result, changes in the fair value of this portion are reflected in earnings each period. In the fourth quarter of 2009, the Fund entered into an offsetting fixed to floating power swap with similar terms as the portion of original floating to fixed power swap not previously designated as a hedge, which will serve to reduce future earnings fluctuations related to these derivative instruments.

Earnings were positively impacted by the operation of all four NRGreen waste heat facilities during 2009. This was partially offset by several unscheduled outages that occurred at the facilities during the year. Several of the facilities experienced outages in January 2009 due to extremely cold weather in Saskatchewan. As a result, modifications to improve the facilities' operational performance in cold weather and help prevent outages like those experienced in January 2009 were undertaken. As at December 31, 2009, the winterization project is substantially complete. Two additional outages occurred during the third quarter of 2009 at the Alameda and Estlin facilities. NRGreen is pursuing warranty and insurance claims for these unscheduled outages and has received \$0.6 million and \$0.1 million during 2009 in respect of warranty and insurance claims, respectively, of which the Fund's share is 50%.

## CAPITAL EXPENDITURES

Capital expenditures of \$1.5 million in 2009 (2008—\$6.0 million) were in line with expectations. Virtually all of these expenditures were made by NRGreen and included final construction and clean-up costs for the three projects brought into service in 2008, interconnection of the Alameda facility and the winterization project on all four NRGreen facilities. Prior year capital expenditures primarily related to the construction of the three new NRGreen waste heat facilities which commenced operations in 2008.

BUSINESS RISKS

The risks identified below are specific to the Green Power segment. General risks that affect the Fund as a whole are described under Risk Management.

Variable Wind Resource

The generation of electricity associated with the Fund’s interest in its Wind Power projects is dependent on the wind resource at each location. The wind resource fluctuates daily and seasonally. The actual long-term wind resource attained at each of the wind power projects has generally met or exceeded the expected wind resource, as forecast with the support of extensive long-term wind studies. However, there is no assurance the wind resource and thus electricity generation at each location will continue to meet expectations.

Dependence

The NRGreen waste heat recovery facilities generate electricity from the waste heat emitted from Alliance Canada’s compressor stations. As a result, any shutdowns for maintenance or reduction in activity at these compressor stations will have a negative impact on the level of production for NRGreen.

Counterparty Risk

The primary source of fixed price revenue for each wind project and for NRGreen is a single counterparty. The stability of the Fund’s revenue and cash flows from this segment is dependent upon the ability of these counterparties to pay their monthly charges. If these counterparties are unable to fulfill their obligations under their purchase agreements and an alternate counterparty is not available, Green Power would be exposed to variable power prices. This risk has been mitigated through contracting with strong investment grade counterparties.

Corporate

The Corporate segment captures management and administrative costs, corporate financing costs, distributions to ECT preferred unitholders, business development activities not attributable to a specific business segment and other corporate costs including current and future income taxes.

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Total costs	(70.0)	(59.8)

Corporate costs were \$70.0 million for the year ended December 31, 2009 compared with \$59.8 million for the year ended December 31, 2008, an increase of \$10.2 million. Higher monthly distributions of \$0.096 per unit in the current year resulted in higher incentive fees of \$3.0 million and higher ECT preferred unit distributions of \$4.6 million compared with the year ended December 31, 2008. Additionally, future income tax expense has increased for the year ended December 31, 2009 primarily due to rate regulated operations. Partially offsetting these factors were decreased current taxes and lower interest expense. Current taxes were higher in 2008 primarily due to the CESCA claim settlement received by Alliance Canada.

Liquidity and Capital Resources

FINANCING STRATEGY

In keeping with its low risk value proposition, the Fund actively monitors and manages exposure to financial risks to ensure the ongoing stability and predictability of cash flow. Overall leverage within the Fund is managed to ensure that the Fund maintains a strong, investment grade credit rating and ongoing access to debt capital markets in virtually all market conditions. To protect against more severe market disruptions, the Manager targets to maintain sufficient liquidity in the form of committed standby credit facilities to finance all anticipated operating and capital requirements for a year without having to access long-term capital markets. Market price risk (primarily exposure to movements in interest rates and commodity prices) is closely monitored and substantially mitigated using hedging instruments approved by the Board of Trustees.

In June 2009, the Fund secured an incremental \$150.0 million of committed revolving standby credit. Of the aggregate amount, \$50.0 million was provided by a commercial bank. Enbridge Inc., an affiliated entity of the Fund's Administrator, provided the remaining \$100.0 million in a separate facility that was identical in all material respects to the bank facility. Each facility has an initial revolving term of 364 days that is extendable annually. The Fund has the option to term-out outstanding indebtedness for an additional year at the end of the applicable revolving term. The new credit facilities, together with the existing term credit facility that matures in 2011, provide the Fund with a total of \$300.0 million of committed standby credit facilities, exclusive of non-recourse credit facilities secured by its operating affiliates. At December 31, 2009, the Fund had \$89.9 million of available standby credit capacity. The Fund maintains a current shelf prospectus with the Canadian securities regulator, which enables ready access to Canadian public capital markets, subject to market conditions. Cash from operations in combination with available committed standby credit facilities and planned debt capital markets funding is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund.

During 2009, the Fund hedged a significant portion of its exposure to interest rate volatility by hedging the rates on its credit facilities through to 2013 and anticipated future term debt issuances in 2010. The total notional principle of interest rate derivative instruments outstanding at December 31, 2009 was \$350.0 million. \$150.0 million of short-term interest rates have been hedged through to December 2013 at an average rate of 2.70%. The underlying government of Canada benchmark rate for \$200.0 million of planned long-term debt issuances has been hedged at an average rate of approximately 3.97%.

The Fund's current liabilities routinely exceed current assets. Current liabilities include current maturities of long-term debt, which can be repaid using the Fund's committed credit facilities. The Fund's cash balance at December 31, 2009 of \$17.6 million includes \$13.7 million held in trust in Alliance Canada, pursuant to finance agreements entered into by Alliance Canada.

## **OPERATING ACTIVITIES**

Cash provided by operating activities was \$94.2 million for the year ended December 31, 2009, a decrease of \$3.9 million from the corresponding period of the prior year as a result of changes in operating assets and liabilities and the impact of the receipt of the CESCA bankruptcy settlement in the prior year.

## **INVESTING ACTIVITIES**

Cash used for investing activities for the year ended December 31, 2009 decreased by \$22.5 million from the prior year to \$41.1 million. Capital additions for 2009 include construction costs primarily related to the Phase II Saskatchewan Capacity Expansion and new business customer connections, maintenance capital on the Saskatchewan System, completion activities on Alliance Canada's BC Expansion and modifications to the NRGreen waste heat facilities to improve operational performance in cold weather. Capital expended in 2008 was primarily directed to completing the Westspur expansion project in Saskatchewan and the three newest NRGreen waste heat facilities.

Capital expenditures are categorized as either maintenance or enhancement. Maintenance capital expenditures are determined based on the capital requirements necessary to maintain the service capability of the existing assets and include the replacement of system components and equipment that are worn, obsolete or completing their useful life. Enhancement expenditures include capital expansion projects and other projects that improve the service capability of existing assets, extend asset useful lives, increase capacities from existing levels, reduce costs or enhance revenues, or enable the Fund to respond to government regulations and developing industry standards. Maintenance capital expenditures are funded through cash from operations, whereas enhancement capital expenditures are generally funded through debt and, as required, the issuance of equity.

FINANCING ACTIVITIES

Financing activities for the year ended December 31, 2009 include payment of monthly distributions to unitholders, repayment of long-term debt, new issues and repayments of non-recourse long-term debt as well as changes in outstanding indebtedness under credit facilities. Cash used in financing activities increased by \$20.9 million to \$52.8 million for the year ended December 31, 2009 compared with the year ended December 31, 2008. The Fund’s \$100.0 million medium-term note matured on December 21, 2009 and was repaid using funds drawn on standby credit facilities.

Alliance Canada issued \$120.0 million of unsecured senior notes in December 2009, 50% of which is reflected in the Fund’s financial statements. The proceeds from this issuance were used to repay non-recourse credit facilities. Alliance Canada made further repayments of its long-term debt in the amount of \$31.0 million during the year ended December 31, 2009. In comparison, significant financing activities in 2008 included NRGreen’s draw on its secured credit facility to distribute a \$20.0 million return of equity to the Fund. Proceeds were used to reduce indebtedness at the Fund level, which had been incurred to finance the Fund’s initial investment in NRGreen.

Lastly, average monthly trust unit distributions have increased and were \$0.096 per unit in 2009 compared with average monthly trust unit distributions of \$0.086 per unit in 2008.

Payments due for contractual obligations over the next five years and thereafter are as follows:

	Total	Less than 1 year	2 years	3 years	4 years	5 years	After 6 years
<i>(millions of Canadian dollars)</i>							
Long-Term Debt <sup>1</sup>	298.7	–	208.7	–	–	90.0	–
Non-recourse Long-Term Debt <sup>1</sup>	733.2	57.9	36.3	39.9	39.9	41.7	517.5
Operating Leases	33.5	3.1	3.3	3.5	3.0	2.7	17.9
	1,065.4	61.0	248.3	43.4	42.9	134.4	535.4

<sup>1</sup> Includes amounts outstanding under credit facilities at December 31, 2009 in their year of expiry.

In January 2009, Alliance Canada received various classes of Master Asset Vehicle (MAV) notes in exchange for Alliance Canada’s investment in asset-backed commercial paper (ABCP) that was unable to be redeemed upon maturity in August 2007, due to the deterioration of liquidity in the ABCP market. The MAV notes consist of 48% MAV2 Class A-1 notes, 42% MAV2 Class A-2 notes, 7% MAV2 Class B notes and 3% MAV2 Class C notes. The Class A-1 and A-2 notes, which comprise 90% of the notes received, carry an “A” rating from DBRS and the Class B and Class C notes are not rated. The legal maturity of the notes is July 15, 2056, but the actual expected repayment of the notes, if held to maturity, is January 22, 2017. Upon exchange, Alliance Canada recognized the MAV notes at an estimated fair value of \$10.0 million, of which the Fund’s share was \$5.0 million, or 50%.

The investment in the MAV notes is classified as held for trading and therefore, is measured at fair value. Due to the lack of an active market for the investment, there is uncertainty regarding the fair value of the assets underlying the MAV notes and the estimate of fair value may differ from the actual fair value that will be realized. The fair value of the MAV notes is estimated using a present value analysis of future cash flows that incorporates coupon payments tied to Bankers Acceptance rates and risk adjusted discount rates. Discount rates have been estimated based on Government of Canada benchmark rates plus expected spreads for similarly rated instruments with comparable risk profiles.

The Fund does not anticipate that the investment in the MAV notes will have a significant impact on Alliance Canada’s operations or cash flow.

## Cash Available for Distribution <sup>1</sup>

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Cash Provided by Operating Activities	<b>94.2</b>	98.1
Add/(Deduct):		
ECT preferred unit distributions <sup>2</sup>	<b>43.8</b>	39.2
Alliance Canada maintenance capital expenditures <sup>3</sup>	<b>(1.2)</b>	(5.2)
Alliance Canada debt repayments <sup>4</sup>	<b>(31.0)</b>	(28.8)
Alliance Canada other cash retained <sup>5</sup>	<b>(15.3)</b>	(11.5)
Green Power cash distributed/(retained) <sup>5</sup>	<b>(2.0)</b>	0.1
Saskatchewan System maintenance capital expenditures <sup>3</sup>	<b>(5.6)</b>	(4.4)
Change in operating assets and liabilities in the year <sup>6</sup>	<b>7.2</b>	3.7
Cash Available for Distribution	<b>90.1</b>	91.2
Cash Available for Distribution is comprised of the following:		
Alliance Canada distributions	<b>71.7</b>	76.4
Alliance Canada capital tax	<b>—</b>	(0.2)
Saskatchewan System operating income before depreciation and amortization	<b>40.1</b>	34.6
Saskatchewan System maintenance capital expenditures	<b>(5.6)</b>	(4.4)
Green Power distributions	<b>4.7</b>	4.8
Corporate management and administrative expense	<b>(9.7)</b>	(6.5)
Corporate interest expense	<b>(10.7)</b>	(12.1)
Corporate other income	<b>0.2</b>	0.1
Corporate current income taxes	<b>(0.6)</b>	(1.5)
Cash Available for Distribution	<b>90.1</b>	91.2
ECT Preferred Unit Distributions Declared	<b>43.8</b>	39.2
Trust Unit Distributions Declared	<b>39.9</b>	35.7
Cash Distributions Declared	<b>83.7</b>	74.9

1 See Non-GAAP measures on page 15.

2 The cash available for distribution above is compared with total distributions, including the ECT preferred unit distributions. Since ECT preferred units are treated as debt under Canadian GAAP with distributions deducted from earnings, the ECT preferred unit distributions have been added back to cash provided from operating activities.

3 Maintenance capital expenditures reduce cash available for distribution since these expenditures are funded through cash from operations.

4 Debt repayments in Alliance Canada are deducted from cash from operations in deriving cash available for distribution because they are funded from cash from Alliance Canada's operations.

5 The cash retained or distributed by Alliance Canada and Green Power reflects the cash from operations of these segments that has not been distributed to the Fund or distributions in excess of cash earnings in the period. While this cash from operations is proportionately consolidated and included in the Fund's cash provided by operating activities, it is not available for distribution by the Fund until it has been received from Alliance Canada and the Green Power segment. Cash retained by Alliance Canada and Green Power includes debt service reserves, capital expenditures and other cash needed to fund working capital or other requirements of these segments.

6 Change in operating assets and liabilities in the period reflect changes in non-cash working capital related to operating activities. The change has been added back to cash available for distribution since fluctuations in working capital are expected each period and are not indicative of changes in cash available to be distributed.

As set out in the above table, cash available for distribution consists of operating cash flow from the Fund's underlying businesses less deductions for maintenance capital expenditures, the Fund's administrative and operating expenses, corporate segment interest expense, applicable taxes and other reserves determined by the Manager.

The above calculations of cash available for distribution represent cash available to fund distributions on trust units and ECT preferred units, as well as for debt repayments and reserves.

## ANALYSIS OF CASH DISTRIBUTIONS DECLARED

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Cash Provided by Operating Activities	<b>94.2</b>	98.1
Earnings	<b>13.0</b>	21.9
Trust Unit Cash Distributions Declared <sup>1</sup>	<b>39.9</b>	35.7
Excess of cash provided by operating activities over cash distributions declared	<b>54.3</b>	62.4
Shortfall of earnings over cash distributions declared	<b>(26.9)</b>	(13.8)

<sup>1</sup> ECT Preferred Unit Distributions have been excluded from this reconciliation since these distributions are reductions to earnings under Canadian GAAP.

For the year ended December 31, 2009, cash flows provided by operating activities in the period exceeded cash distributions paid to trust unitholders by \$54.3 million (2008—\$62.4 million). This excess represented cash reserved for debt repayments, working capital requirements and maintenance capital expenditures, as well as cash retained by joint ventures.

Earnings were \$26.9 million lower than cash distributions to trust unitholders for the year ended December 31, 2009 (2008—\$13.8 million). The greater shortfall in earnings over distributions in 2009 compared with 2008 was due to the \$6.1 million CESA settlement (\$4.4 million net of tax) recorded in earnings in 2008. An excess of distributions over earnings is expected to continue in the future and partly represents a return of capital to unitholders (including ECT Preferred Unitholders). Under GAAP, earnings reflect non-cash items such as amortization of deferred financing costs and depreciation as well as changes in future income taxes due to tax rate changes, all of which do not impact cash flow. Depreciation does not necessarily represent the cost of maintaining productive capacity; therefore, cash required for maintenance may be lower than depreciation expense.

## DISTRIBUTIONS

On November 3, 2008, the Board of Trustees announced an 11.6% increase to the regular monthly distributions effective in 2009. As a result, the regular monthly distributions increased from \$0.086 per unit to \$0.096 per unit effective with the distribution payable to unitholders of record on January 30, 2009. The regular monthly distributions remain at \$0.096 per unit as at December 31, 2009.

In May 2008, the Board of Trustees announced a change to the Fund's distribution policy. The Fund now targets to distribute approximately 95% of cash available for distribution each calendar year. The distribution will not typically be adjusted in circumstances where a change in cash available for distribution is not considered to be recurring. The remaining 5% of cash available for distribution retained by the Fund is used to repay debt obligations, for general purposes and to level distributions.

## Taxation of Distributions

Under Canadian tax laws, a component of the Fund's cash distributions are taxable in the hands of the unitholder, with the remaining portion treated as a return of capital unless held in a tax-deferred account. Based on current operations, the Fund estimates that approximately 80% of cash distributed in 2009 and 80% to be distributed in 2010 will be included in the income of unitholders for income tax purposes. The remaining amount distributed in both years represents a non-taxable return of capital.

## Tax Treatment of Unitholder Distributions

If the proposed corporate restructuring announced on November 2, 2009 does not occur prior to the January 1, 2011 implementation of the SIFT tax then, based on the Fund's analysis and external advice, the Manager believes the income portion of distributions (net of SIFT tax) received by unitholders will be treated the same as taxable dividends from a Canadian corporation commencing in 2011. Returns of capital by the Fund to its unitholders should not be impacted by the implementation of the SIFT tax. Since this is only a general summary and unitholders' individual circumstances will vary, it is not intended, nor should it

be treated, as a representation of the income tax consequences to any particular unitholder or as tax or legal advice. Unitholders should consult their own tax advisors to clarify the impact of the SIFT tax on their individual circumstances.

### Sustainability of Distributions and Productive Capacity

The current level of distributions may change based on the performance of the Fund's businesses, the level of continued investment, the Fund's ability to obtain financing, the impacts of the SIFT tax or the proposed corporate restructuring. The Board of Trustees periodically approves changes to distributions in accordance with the Fund's distribution policy. Distributable cash flow is defined to generally mean cash from operating, investing and financing activities, less certain items, including repayment of any indebtedness required in the period and any cash withheld as a reserve as determined by the Manager.

The sustainability of the Fund's distributions is a function of several factors: the demand for the services provided by its businesses; the effective maintenance of the productive capacity of its assets, its ability to economically obtain financing to fund growth and operational requirements and its ability to comply with covenants in its debt agreements as well as repay or refinance its debt as it comes due.

Each operating segment maintains its productive capacity and ensures the future sustainability of its distributions through regular maintenance programs and periodic maintenance capital expenditures. Maintenance capital expenditures are funded through cash from operations. Refer to the Capital Expenditures sections within the description of each operating segment for further discussion on planned maintenance and enhancement capital activities for 2010.

The Fund's Administrator has proposed a restructuring of the Fund to take effect prior to the implementation of the SIFT tax on January 1, 2011. The Fund would cease to be a SIFT and would not be subject to the SIFT tax under the proposed restructuring. Should the proposed restructuring, or an alternative restructuring which achieves the same objectives, not be completed prior to January 1, 2011, the SIFT tax will serve to reduce cash available for distribution by the Fund.

## Selected Annual Financial Information

	2009	2008	2007
<i>(millions of Canadian dollars, except where otherwise noted)</i>			
Revenues	<b>314.8</b>	297.0	270.8
Earnings	<b>13.0</b>	21.9	21.1
Per Unit <i>(dollars per unit)</i>	<b>0.38</b>	0.63	0.61
Total Assets	<b>1,915.3</b>	1,858.2	1,858.8
Total Long Term Liabilities	<b>1,560.3</b>	1,412.8	1,508.6

Significant items that have impacted the selected annual financial information are as follows:

- 2009 earnings reflect higher Corporate costs due primarily to the increase in the Fund's monthly distributions, effective January 2009, from \$0.086/unit to \$0.096/unit which results in increased incentive fees and preferred unit distributions.
- 2009 earnings reflect an increased earnings contribution from the Saskatchewan System due to full year of operations at higher capacity in 2009, subsequent to the Westspur expansion that was completed in June 2008.
- Increased assets and long-term liabilities in 2009 relate to a change in accounting policy related to income taxes which removed specific exemptions for rate regulated entities. As a result of the revised standard, the Fund recognized a future income tax liability related to regulated assets, primarily property, plant and equipment, along with an offsetting regulatory asset of \$120.2 million on January 1, 2009. See further discussion in the Change in Accounting Policies section below.
- 2008 earnings reflect \$4.4 million, net of tax, received from the CESCA bankruptcy settlement in Alliance Canada.

- 2008 revenues reflect higher cost recoveries within the Saskatchewan System, subsequent to the Westspur System expansion completed in June 2008, as well as higher cost recoveries in Alliance Canada related to the change in treatment of certain expenditures.
- 2007 earnings include future income tax recoveries of \$6.6 million for future tax rate changes enacted during the year.

## Selected Quarterly Financial Information

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<i>(millions of Canadian dollars, except per unit amounts)</i>								
Revenue	<b>83.4</b>	<b>79.4</b>	<b>77.3</b>	<b>74.7</b>	83.7	72.2	72.4	68.7
Earnings	<b>3.6</b>	<b>2.7</b>	<b>3.4</b>	<b>3.3</b>	4.8	4.9	4.6	7.6
Earnings Per Unit (basic and diluted)	<b>0.10</b>	<b>0.08</b>	<b>0.10</b>	<b>0.10</b>	0.14	0.14	0.13	0.22
Cash Distributions Declared <sup>1</sup>	<b>20.9</b>	<b>20.9</b>	<b>20.9</b>	<b>20.9</b>	18.7	18.7	20.1	17.4

<sup>1</sup> Cash distributions declared on Trust units and ECT preferred units.

Significant items that have impacted quarterly financial information are as follows:

- Fourth quarter revenues from the Fund's regulated entities, including Alliance Canada, the Westspur System and the Saskatchewan Gathering System, are typically higher than other quarters due to higher cost of service recoveries. The maintenance schedule of both Alliance Canada and the Saskatchewan System has some seasonal variance which generally results in more maintenance projects being undertaken in the latter half of the year.
- First quarter earnings in 2008 reflected a \$6.1 million increase from the CESCA bankruptcy settlement in Alliance Canada offset by increased current taxes in the Corporate segment and unrealized derivative losses in Green Power.
- Increased cash distributions declared in 2009 reflected an increase in the monthly distribution from \$0.086 per unit to \$0.096 per unit. This increase in the distribution resulted in higher ECT preferred unit distributions and incentive fees thereby reducing earnings in 2009.
- In the second quarter of 2008 monthly distributions on the Fund's trust units and the ECT preferred units were increased from \$0.08 per unit to \$0.086 per unit, effective with the distributions payable to holders of record on May 31, 2008. A special distribution of \$0.024 per unit was also paid to holders of record on May 31, 2008.

## Fourth Quarter 2009 Highlights

Fourth quarter earnings for 2009 were \$3.6 million, or \$0.10 per unit, compared with \$4.8 million, or \$0.14 per unit, in 2008. This \$1.2 million decrease in earnings from the prior year reflects offsetting impacts within the operating segments, as discussed below.

Earnings from Alliance Canada for the three months ended December 31, 2009 increased \$1.9 million, to \$15.3 million, compared with the three months ended December 31, 2008. This increase is primarily due to an increase in allowance for income taxes. Certain repairs and maintenance activities are deducted from income when calculating the allowance for income taxes, and the costs incurred for these types of expenses were lower in the fourth quarter of 2009 than in the fourth quarter of 2008. The result is a higher taxable income for purposes of calculating the allowance for income tax.

Saskatchewan System earnings for the three months ended December 31, 2009 were \$5.1 million compared with earnings of \$4.6 million for the three months ended December 31, 2008. This increase is primarily due to the Weyburn System, which experienced higher throughputs and allowance oil sales in the fourth quarter of 2009 compared with the fourth quarter of 2008.

Earnings for the three months ended December 31, 2009 were \$0.4 million for Green Power (2008—\$0.3 million). After removing the impact of unrealized derivative losses from the fourth quarters of the current and prior year (2009—\$0.7 million and 2008—\$0.6 million), earnings increased by \$0.2 million from the fourth quarter of 2008. This increase is attributed to earnings growth from NRGreen, which had all four waste heat facilities operating at full capacity during the three months ended December 31, 2009.

Corporate costs for the three months ended December 31, 2009 were \$17.2 million, compared with \$13.5 million for the three months ended December 31 2008. This \$3.7 million increase is primarily a result of the increase in monthly distributions from \$0.086 per unit to \$0.096 per unit, which was effective January 2009. The distribution increase results in higher incentive fees and ECT preferred unit distributions.

## Related Party Transactions

Alliance Canada has contracts for transportation along the Alliance Canada pipeline with shippers who are also affiliates of the Fund through common ownership interests of Enbridge. The Fund's share of Alliance Canada's revenue from affiliates for the year ended December 31, 2009 is \$13.3 million (2008—\$13.5 million) of which \$1.1 million (2008—\$1.1 million) was included in accounts receivable at year-end. The terms of these contracts are the same as those agreed to with independent third parties.

Administrative and operation services agreements allow for Alliance Canada to provide services to Alliance Pipeline US (an entity related to Alliance Canada by virtue of common ownership interests) in exchange for reimbursement of incurred costs or at rates consistent with those obtainable from independent third parties. Certain amounts reimbursed under the services agreements with Alliance Pipeline US also include a recovery of costs relating to the use of common administrative assets. The Fund's share of amounts charged to Alliance Pipeline US during the year ended December 31, 2009 was \$14.1 million (2008—\$12.7 million) of which \$1.4 million (2008—\$1.3 million) was included in accounts receivable as at December 31, 2008.

Administrative and facility support services are provided by Alliance Canada to Aux Sable Canada LP and Aux Sable Liquid Products LP, which are entities related to the Fund through common ownership. The Fund's share of amounts charged to Aux Sable Canada LP and Aux Sable Liquid Products LP during the year were \$0.2 million (2008—\$0.2 million) and \$0.1 million (2008—\$0.1 million), respectively. As at December 31, 2009 and 2008, the related receivables owing from Aux Sable Canada LP and Aux Sable Liquid Products LP were immaterial.

In July 2009, Alliance Canada entered into a 365 day unsecured operating facility with Alliance Pipeline L.P., an affiliated entity. The facility allows Alliance Canada to borrow up to US\$20 million on similar terms to those Alliance Canada would receive from commercial banks in Canada. Interest will be charged on amounts outstanding under the facility, at the LIBOR rate plus applicable margins. As at December 31, 2009, Alliance Canada has not drawn on the new facility, of which the Fund's proportionate share is 50%.

The Saskatchewan System does not have any employees and uses the services of Enbridge, which has a 41.9% equity ownership interest in the Fund, for managing and operating the business. These services, which are charged at cost in accordance with service agreements, were \$18.0 million for 2009 (2008—\$15.5 million) of which \$1.5 million (2008—\$0.9 million) was included in payables at December 31, 2009.

Certain wind power projects do not have any employees and use the services of Enbridge for managing and operating the business. These services, which are charged at cost, were \$0.4 million for 2009 (2008—\$0.3 million). As at December 31, 2009 and 2008, the related payables owing to Enbridge were immaterial.

The Fund has a contract to sell all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath projects to Enbridge. The contract has an initial 20-year term ending October 1, 2026 and provides for a fixed price of \$5 per tonne of avoided CO<sub>2</sub> emissions, based on a negotiated rate of converting megawatts generated to tonnes of emissions reduced, plus applicable taxes. The Fund earned \$0.3 million (2008—\$0.3 million) for the sale of these emission reduction credits in the year. As at December 31, 2009 and 2008, the related receivables owing from Enbridge were immaterial.

One of the Fund's wind power projects has a long-term Power Purchase Agreement (PPA), expiring in 2024, with Enbridge Pipelines Inc., a wholly owned subsidiary of Enbridge. The terms of the PPA are for the sale of the project's total wind power production at a fixed price. Revenues of \$0.2 million (2008—expenses of \$0.8 million) related to this PPA are reported within the Fund's revenue for the year ended December 31, 2009. As at December 31, 2009 and 2008 the related receivables and payables, respectively, related to this PPA were immaterial.

Under the management and administrative agreements with EMSI, a wholly owned subsidiary of Enbridge, an incentive fee is payable annually to EMSI equal to 25% of cash distributions above a base distribution level of \$0.825 per unit per year. During the year ended December 31, 2009, incentive fees were \$8.3 million (2008—\$5.3 million), of which \$8.3 million was included in accounts payable and accrued liabilities at December 31, 2009 (2008—\$4.7 million). In addition, a base fee of \$0.1 million is payable annually for providing administrative and management services and is included in accounts payable at December 31, 2009.

In June 2009, the Fund secured an incremental \$150.0 million of committed revolving standby credit in two separate facilities. Of the aggregate amount, \$100.0 million was provided by Enbridge Inc., an affiliated entity of the Fund's Administrator. The remaining \$50.0 million was provided by a commercial bank. The \$100.0 million facility provided by Enbridge Inc. was identical in all material respects to the bank facility. At December 31, 2009, \$11.7 million was drawn on the \$100.0 million facility provided by Enbridge Inc.

## Risk Management

The Fund's business activities are subject to both financial and non-financial risks.

### FINANCIAL RISKS

#### Market Price Risk

The Fund's earnings, cash flows and other comprehensive income are subject to movements in market prices (primarily interest rates and commodity prices). The following summarizes the types of market price risks to which the Fund is exposed, and the risk management instruments used to mitigate them.

#### Interest Rate Risk

The Fund is exposed to cash flow interest rate risk and fair value interest rate risk as a result of fluctuations in market interest rates. Cash flows are impacted by changes in market interest rates on the cost of variable rate debt and planned future fixed rate debt issues. The Fund may enter into interest rate derivatives such as floating to fixed interest rate swaps and forward rate agreements to mitigate the interest rate risk associated with this debt. The fair value of existing fixed rate long-term debt is also impacted by changes in market interest rates. The Fund does not typically manage the fair value risk of its debt instruments as they are classified as financial liabilities and recorded at amortized cost.

Information regarding the Fund's debt is included in Notes 8 and 9 of the 2009 Annual Consolidated Financial Statements.

#### Commodity Price Risk

Commodity price risk is the risk of a change in cash flows or earnings due to changes in the market price of commodities. The Fund is exposed to movements in the price of power through its interest in certain wind power assets. To manage this exposure, the Fund uses fixed price power agreements that convert the floating price received when power is sold at a fixed rate.

#### Financing and Liquidity Risk

Access to cost-effective sources of funding is central to the successful execution of the Fund's broader strategy. New debt and equity capital is required to fund planned growth projects and refinance maturing indebtedness. Fluctuations in the cost and availability of debt and equity capital could materially impair the ability of the Fund to execute its broader strategies and generate stable and predictable cashflow to its unitholders. Financing Risk is addressed through the maintenance of strong credit ratings and a pro-active

investor relations program. The Fund also maintains a current shelf prospectus with Canadian securities regulators, which enables ready access to Canadian public debt and equity capital markets, subject to market conditions. To protect against more severe capital market disruptions, the Manager targets to maintain sufficient liquidity in the form of committed standby credit facilities to finance all anticipated operating and capital requirements for a year without having to access long-term capital markets. The Fund regularly updates its short term and long-term liquidity position to ensure that it has sufficient committed standby credit on hand to meet planned requirements and contingencies.

#### Maturities of Financial Instruments

The Fund generally has no financial instruments, other than derivative instruments, maturing beyond one year with the exception of its long-term debt and non-recourse long-term debt. Additional information about the Fund's long-term debt and non-recourse long-term debt is included in Notes 8 and 9 of the 2009 Annual Consolidated Financial Statements.

The Fund has estimated the following undiscounted cash flows will arise from its derivative instruments based on valuation at the balance sheet date:

	2010	2011	2012	2013	2014	Thereafter
<i>(millions of Canadian dollars)</i>						
Cash inflows	0.5	0.3	–	0.4	–	–
Cash outflows	(4.0)	(0.9)	(0.2)	(0.2)	(0.1)	(0.5)
Net cash flows	(3.5)	(0.6)	(0.2)	0.2	(0.1)	(0.5)

The maturity profile of non-derivative financial liabilities is presented in Liquidity and Capital Resources.

#### Credit Risk

Credit risk arises from trade receivables and is mitigated by use of counterparty credit exposure limits and by requiring less creditworthy shippers to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements.

Entering into derivative financial instruments can also give rise to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations and is limited to those contracts where the Fund would incur a loss in replacing the instrument. The Fund minimizes credit risk by entering into risk management transactions only with institutions that possess solid investment grade credit ratings or have provided the Fund with an acceptable form of credit protection.

The Fund is exposed to credit risk through Alliance Canada's investment in the MAV notes. Due to the lack of active market for these instruments and the uncertainties regarding the fair value of the underlying assets, there is risk that Alliance Canada will not receive the carrying value of the instruments upon maturity.

#### Debt Covenants

The Fund, NRGreen and Alliance Canada credit facilities include provisions that prohibit distributions in the event of default. The Fund's credit facility agreements include a covenant that limits unconsolidated indebtedness to four times earnings before interest, taxes, depreciation and amortization (EBITDA.) In the event of default and in the absence of a waiver from the lenders, failure to remediate this covenant could result in a reduction of distributions to unitholders. Under the NRGreen and Alliance Canada credit facilities, distributions cannot be made to owners if the debt service coverage ratio, calculated as of the applicable distribution date, falls below 1.25 to 1 for Alliance Canada and 1.4 to 1 for NRGreen for the four preceding fiscal quarters and the four succeeding fiscal quarters. The respective entities actively monitor debt covenants to ensure compliance. As at December 31, 2009 and 2008, the Fund, NRGreen and Alliance Canada were in full compliance with their respective debt covenants.

## FINANCIAL INSTRUMENTS

As at December 31, 2008 and 2009, the Fund had the following financial instrument carrying and fair values:

December 31, 2009	Held for Trading	Loans and Receivables	Other Financial Liabilities	Derivatives	Non-Financial Instruments	Total	Fair Value <sup>1</sup>
<i>(millions of Canadian dollars)</i>							
<b>Assets</b>							
Cash and cash equivalents	17.6	—	—	—	—	17.6	17.6
Accounts receivable and other	—	37.2	—	—	1.3	38.5	37.2
Deferred amounts and other assets	4.8	—	—	—	189.8	194.6	4.8
<b>Liabilities</b>							
Accounts payable and accrued liabilities	—	—	45.3	3.6	4.4	53.3	48.9
Distributions payable	—	—	3.3	—	—	3.3	3.3
Long-term debt	—	—	296.1	—	—	296.1	302.9
Non-recourse long-term debt	—	—	763.0	—	—	763.0	789.0
ECT Preferred Units	—	—	380.2	—	—	380.2	505.7
Long-term liabilities	—	—	—	0.9	2.3	3.2	0.9

<sup>1</sup> Fair value does not include non-financial instruments.

December 31, 2008	Held for Trading	Loans and Receivables	Other Financial Liabilities	Derivatives	Non-Financial Instruments	Total	Fair Value <sup>1</sup>
<i>(millions of Canadian dollars)</i>							
<b>Assets</b>							
Cash and cash equivalents	17.3	—	—	—	—	17.3	17.3
Accounts receivable and other	—	37.4	—	—	1.4	38.8	37.4
Deferred amounts and other assets	5.0	—	—	—	85.7	90.7	5.0
<b>Liabilities</b>							
Accounts payable and accrued liabilities	—	—	44.3	1.5	3.8	49.6	45.8
Distributions payable	—	—	3.0	—	—	3.0	3.0
Long-term debt	—	—	278.8	—	—	278.8	272.5
Non-recourse long-term debt	—	—	795.6	—	—	795.6	781.3
ECT Preferred Units	—	—	380.2	—	—	380.2	394.3
Long-term liabilities	—	—	2.7	11.7	3.9	18.3	14.5

<sup>1</sup> Fair value does not include non-financial instruments.

### Fair Value of Financial Instruments

The fair value of financial instruments reflects the Fund's best estimates of market value based on generally accepted valuation techniques or models and supported by observable market prices and rates. When such prices are not available, the Fund uses discounted cash flow analysis from applicable yield curves based on observable market inputs. The fair value of financial instruments, other than derivatives, represents the amounts that would have been received from or paid to counterparties to settle these instruments at the reporting date.

The fair value of the Fund's long-term debt is based on quoted market prices for instruments of similar yield, credit risk and tenure. The fair value of the ECT preferred units is derived from the closing market price of the Fund's trust units.

The fair value of the Fund's derivative financial instruments and investment in the MAV notes through Alliance Canada reflects the Fund's best estimates of market value based on generally accepted valuation techniques or models and supported by observable market prices, if available.

The fair value of other financial assets and liabilities other than derivative instruments approximate their cost due to their short term to maturity.

### Derivative Instruments used as Cash Flow Hedges

The following tables summarize the cash flow hedges used to manage fluctuations in power prices and interest rates.

Year ended December 31, 2009	Notional Principal or Quantity	Fair Value Receivable/ (Payable)	Maturity	Unrealized Gains/(Losses), net of tax <sup>1</sup>	Realized Gains, net of tax <sup>1</sup>
<i>(millions of Canadian dollars, unless otherwise noted)</i>					
Chin Chute Power Swap (MW/H)	2.0	0.3	2017	6.0	0.2
Magrath Power Swap (MW/H)	2.8	—	2024	2.8	0.2
Interest Rate Swaps	350.0	(4.3)	2010–2013	(3.1)	0.1
		(4.0)		5.7	0.5

<sup>1</sup> Changes in the fair value of effective cash flow hedging instruments are recorded in OCI and reclassified to earnings when the hedged item impacts earnings.

Year ended December 31, 2008	Notional Principal or Quantity	Fair Value Payable	Maturity	Unrealized Losses, net of tax <sup>1</sup>	Realized Losses, net of tax <sup>1</sup>
<i>(millions of Canadian dollars, unless otherwise noted)</i>					
ChinChute Power Swap (MW/H)	2.0	(3.4)	2017	(1.5)	(0.6)
Magrath Power Swap (MW/H)	2.8	(8.1)	2024	(3.1)	(0.6)
		(11.5)		(4.6)	(1.2)

<sup>1</sup> Changes in the fair value of effective cash flow hedging instruments are recorded in OCI and reclassified to earnings when the hedged item impacts earnings.

### Non-Qualifying Derivatives

In addition to the derivatives used as cash flow hedges described above, as at December 31, 2009, the Fund held a 1MW fixed to floating power swap as well as a 1MW floating to fixed power swap, both of which mature in 2017. As at December 31, 2008, the Fund held a 1MW floating to fixed power swap maturing 2017. The Fund recognized an unrealized derivative gain of \$0.6 million, net of tax, for the year ended December 31, 2009 (2008—loss of \$0.5 million after tax) related to these power purchase swap agreements not designated as hedging instruments. These instruments have a fair value payable of \$0.5 million at December 31, 2009 (2008—\$1.7 million payable).

Additional information about the Fund's Risk Management and Financial Instruments is included in Notes 16 and 17 of the 2009 Annual Consolidated Financial Statements.

## NON-FINANCIAL RISKS

### Regulation and Legislation

Earnings and expansion projects on Alliance Canada and the Saskatchewan Systems are subject to the actions of various regulators, including the NEB. Actions of the regulators related to tariffs, tolls and facilities impact earnings and the success of the expansion projects. Delays in regulatory approvals could result in cost escalations and construction delays.

Changes in regulation, including decisions by regulators on the applicable tariff structure or changes in interpretations of existing regulations by courts or regulators, could adversely affect the results of operations of Alliance Canada and the Saskatchewan System. Further, the nature and degree of regulation and legislation affecting energy companies in Canada has changed significantly in past years and there is no assurance that further substantial changes will not occur. Such regulations and legislation may adversely affect the toll structure or other aspects of the Fund's business or the operations and creditworthiness of shippers.

## Supply and Demand

The operation of the Fund's liquids and natural gas pipelines is dependent upon the supply of and demand for crude oil and natural gas from Western Canada. The demand for crude oil by refiners is dependent upon a number of factors including the price of crude oil, the cost of operating the refinery and market prices for the various refined products. Demand for natural gas is affected among other things, by weather, requirements for electric power and broader levels of economic activity. Supply of crude oil and natural gas is dependent upon a number of variables, including:

- the level of exploration, drilling, reserves, and production of crude oil and natural gas;
- the accessibility of Western Canadian crude oil and natural gas;
- the price and quality of crude oil and natural gas available from alternative Canadian and United States sources; and
- the regulatory environments in Canada and the United States, including the continued willingness of the governments of both countries to permit the export of crude oil and natural gas from Canada to the United States on a commercially acceptable basis.

Supply and demand risk on Alliance Canada is substantially mitigated by long-term TSAs under which 98.5% of Alliance Canada's firm transportation capacity is contracted through 2015.

Demand for the Fund's services is also affected by the supply of and demand for power generated by facilities within the Green Power segment. This risk is mitigated by the long-term PPAs entered into with customers.

## Operating Risk

The operation of Alliance Canada, the Saskatchewan System and Green Power involves risks, including the failure of equipment, information systems or processes, poor performance of equipment (whether due to misuse, unexpected degradation or design, construction or manufacturing defects), lack of spare parts, operator error, failure of internal controls, non-compliance with legal or other obligations, labour disputes, disputes or issues with interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, fractures, acts of terrorists and saboteurs, occurrence of a pandemic and other similar events, many of which are beyond the control of the respective systems. The occurrence or continuance of any of these events could increase the cost of operating Alliance Canada, the Saskatchewan System and/or Green Power and reduce transportation or generation capacity, thereby potentially impacting cash flow. The Fund employs various inspection and monitoring methods to manage pipeline, turbine and facility integrity as well as to minimize system disruptions. Additionally, the Fund maintains safety policies, disaster recovery procedures and insurance coverage at industry acceptable levels in the case of an incident.

## Environmental Costs and Liabilities

The operation of the Saskatchewan System and Alliance Canada are subject to federal, provincial and local laws and regulations relating to environmental protection and operational safety. Risks of substantial environmental costs and liabilities, including those from leaks and explosions, are inherent in pipeline operations and there can be no assurance that significant costs and liabilities, including those relating to claims for damages to property and persons resulting from operations of Alliance Canada and/or the Saskatchewan System, will not be incurred. To mitigate this risk, Alliance Canada and the Saskatchewan System have established safety and environmental policies that are designed to ensure that all aspects of their operations comply with existing regulations relating to personal safety and protection of the environment. It is not possible to predict the effect that any future changes in environmental laws and regulations will have on future earnings and there can be no assurance that environmental costs incurred by Alliance Canada or the Saskatchewan System will be partially or fully recoverable under their tolls.

### **Easement Rights**

Alliance Canada, Saskatchewan System and Green Power have acquired easement rights from landowners, tenants and service lease owners in order to construct, install and operate their pipelines and wind turbines. These easement rights were obtained through voluntary negotiation and, in certain cases, through statutory rights of entry. There can be no assurance that legal challenges will not be brought forward with respect to the form, content, or recording of such easements, or to business segments' compliance with the terms of such easements during the construction and operation of the pipelines or wind turbines.

### **Execution Risk**

The Fund's ability to successfully execute the development of its organic growth projects, such as the Saskatchewan System Capacity Expansion, may be influenced by capital constraints, third-party opposition, changes in shipper support for projects over time, delays or changes in government and regulatory approvals, cost escalations, construction delays, shortages and in-service delays. Early stage project risks include right-of-way procurement, special interest group opposition, Crown consultation, and environmental and regulatory permitting. Cost escalations may impact project economics. Construction delays due to slow delivery of materials, contractor non-performance, weather conditions and shortages may impact project development. Labour shortages, inexperience and productivity issues may also affect the successful completion of the projects. To mitigate these risks, clearly defined management and governance structures for all major projects are established and strategic relationships with landowners, suppliers, contractors and other stakeholders are formed and maintained. Additionally, Enbridge, the Fund's Manager, and the Fund's joint venture interests ensure that compensation programs, communications and working environments are designed to attract, develop and retain qualified personnel.

### **Special Interest Groups**

The Fund is exposed to the risk of higher costs, delays or even project cancellations due to increasing pressure on government and regulators by aboriginal groups, landowners and other special interest groups. Recent Supreme Court decisions have increased the ability of special interest groups to make claims and oppose projects in regulatory and legal forums. The Fund and its contractors work proactively with special interest groups to identify and develop an appropriate response to concerns regarding its projects.

### **Workforce Development**

With increased rates of retirement due to the current workforce demographic, the Fund relies on Enbridge's strong recruiting efforts, comprehensive training and leadership development programs, as well as succession planning initiatives to ensure the Manager has qualified staff to provide services to the Fund.

### **Joint Venture Partners**

Certain segments of the Fund consist of joint venture partnerships with the Fund's ownership interests ranging from 33% to 50%. In these partnerships, the Fund does not have full control to execute initiatives without consent from the joint venture partners. This risk is mitigated through formal governance procedures as well as informal dialogue with joint venture partners.

## Critical Accounting Estimates

### DEPRECIATION

Depreciation of property, plant and equipment, the Fund's largest asset with a net book value of \$1,261.2 million, or 65.8% of total assets at December 31, 2009, is generally provided on either a straight-line basis over the estimated service lives of the assets or a unit of throughput basis commencing when the asset is placed in service. When it is determined that the estimated service life of an asset does not reflect the expected remaining period of benefit, prospective changes are made to the estimated service life. In general, estimates of service lives are based on third party engineering studies, experience and industry practice. There are a number of assumptions inherent in estimating the service lives of the Fund's assets including the level of development, exploration, drilling, reserves and production of crude oil and natural gas in the supply areas served by the Fund's pipelines as well as the demand for crude oil and natural gas and the integrity of the Fund's systems. Changes in these assumptions could result in adjustments to the estimated service lives, which could result in material changes to depreciation expense in future periods in any of the Fund's operating segments.

### REGULATORY ASSETS AND LIABILITIES

Alliance Canada and certain pipelines within the Saskatchewan System are subject to regulation by various authorities, including but not limited to, the NEB and SER. Regulatory bodies exercise statutory authority over matters such as construction, rates and ratemaking, and agreements with customers. To recognize the economic effects of the actions of the regulator, the timing of recognition of certain revenues and expenses in operations may differ from that otherwise expected under Canadian GAAP for non rate-regulated entities. Also, the Fund records regulatory assets and liabilities to recognize the economic effects of the actions of the regulator. Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates. On refund or recovery of this difference, no earnings impact is recorded. Effectively, the income statement captures only the approved costs and the related revenue rather than the actual costs and related revenue. As of December 31, 2009, the Fund's regulatory assets totalled \$194.7 million (2008–\$79.8 million) and regulatory liabilities totalled \$7.1 million (2008–\$2.3 million). To the extent that the regulator's actions differ from the Fund's expectations, the timing and amount of recovery or settlement of regulatory balances could differ significantly from those recorded.

### ASSET RETIREMENT OBLIGATIONS

The fair value of asset retirement obligations (AROs) associated with the retirement of long-lived assets are recognized as long-term liabilities in the period when they can be reasonably determined. The fair value approximates the cost a third party would charge in performing the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows. AROs are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The present value of expected future cash flows is determined using assumptions such as the probability of abandonment in place versus removal and the estimated costs required upon abandonment in each case, the discount rate and the estimated time to abandonment. Changes in the assumptions used to calculate the present value of expected future cash flows could result in material changes to the asset retirement obligation and the accretion expense in future periods.

In May 2009, the NEB released a report on the financial issues associated with pipeline abandonment. The NEB will require all companies to formally assess the timeline and cost of future abandonment and, if necessary, set aside funds to cover future abandonment costs. All pipelines regulated under the NEB Act will be required to comply with the report's framework and action plan. The NEB began hosting technical meetings in September 2009 to evaluate how abandonment estimates will be calculated and submitted as well as proposals for how funds will be collected and set aside. The NEB's goal is for companies, as required, to begin setting aside funds for abandonment no later than the end of May 2014. Currently, the Fund does not have an asset retirement obligation recorded in its consolidated financial statements for Alliance Canada and certain other assets due to the indeterminate timing and scope of asset retirements. However, should the NEB action plan result in a reasonable estimate of asset retirement obligations for accounting purposes, financial statement recognition of those obligations may be made in future periods. As a result, regulatory assets and liabilities may be recognized to the extent the timing of recovery from shippers differs from the recognition of abandonment costs for accounting purposes.

The undiscounted amount of expected cash flows required to settle the existing AROs that have been set up related to assets in the Saskatchewan System and Green Power segments is estimated at \$43.0 million (2008–\$40.5 million) with the majority estimated to be settled beginning in the year 2026. The liability for the expected cash flows, as reflected in the financial statements, has been discounted at 6.55%.

## **GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets upon acquisition of a business. Goodwill is not subject to amortization but is tested for impairment at least annually and written down to fair value if impairment occurs. For the purposes of impairment testing, reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business segment or a business unit within a business segment. Potential impairment is identified when the carrying value of a reporting unit, including allocated goodwill, exceeds its fair value. Goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

The determination of fair value of the assets and liabilities of the reporting unit involves the use of valuation techniques, including present value calculations of estimated future cash flows. This requires the use of various assumptions about future income, future operating costs, future demand, throughputs and discount rates. Any changes in these assumptions could result in an impairment of goodwill.

## **Change in Accounting Policies**

### **ACCOUNTING FOR THE EFFECTS OF RATE REGULATION**

Effective January 1, 2009, the Fund adopted revisions to both Canadian Institute of Chartered Accountants (CICA) Handbook section 1100, Generally Accepted Accounting Principles and section 3465 Income Taxes. The revisions to Section 3465 were applied retrospectively without restating prior periods. The revised standards no longer provide specific exemptions for rate regulated entities. As a result of the revised standard, the Fund recognized a future income tax liability related to regulated assets, primarily property, plant and equipment, along with an offsetting regulatory asset.

### **INTANGIBLE ASSETS**

Effective January 1, 2009, the Fund adopted CICA Handbook section 3064, Goodwill and Intangible Assets. The adoption of this standard resulted in the retrospective reclassification of certain software costs from property, plant and equipment to intangible assets.

## FUTURE ACCOUNTING POLICY CHANGES

### Business Combinations

The CICA issued Section 1582 *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS. The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The adoption of the revised standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, earlier application is permitted.

### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) confirmed in February 2008 that publicly accountable entities will be required to adopt IFRS for interim and annual financial statements beginning on January 1, 2011, including comparative financial statements for 2010.

Enbridge, whose IFRS conversion project includes the Fund, has prepared for IFRS conversion by preparing IFRS compliant accounting policies, drafting model IFRS financial disclosures, identifying accounting differences, developing and implementing systems solutions and process changes that support the preparation of 2010 comparative data as well as a sustainable conversion to IFRS in 2011.

### Accounting and Reporting

To date, Enbridge has completed detailed IFRS compliant accounting policies. The IFRS compliant accounting policies differ in some regards from current accounting policies used by the Fund. The most significant differences are expected to impact the following areas:

- Property, plant and equipment
- Decommissioning liabilities (asset retirement obligations)
- Impairments

The International Accounting Standards Board's (IASB) project on Rate Regulated Activities is being carefully monitored for its impact on the Fund. The IASB's exposure draft on Rate Regulated Activities, published in July 2009, would allow the Fund to continue to apply rate regulated accounting with some modest changes. It is not possible to determine with certainty the extent of the changes to the Fund's accounting for rate regulated activities until the final standard, expected to be published by the end of the second quarter of 2010, is available.

The IASB's project on Joint Ventures proposes to eliminate the proportionate consolidation of joint ventures. If the project proceeds as proposed, the Fund would apply equity accounting to its joint venture interests under IFRS instead of proportionate consolidation. A final standard is expected to be published during the first quarter of 2010 after which the Fund will be able to determine the impact of conversion to IFRS on its accounting for joint ventures.

The Fund has selected IFRS 1 elective exemptions which are practical and provide the most relevant presentation on conversion to IFRS. The primary result of the exemptions selected is to apply certain IFRS differences prospectively, minimizing adjustments to the IFRS opening balance sheet. The IASB's exposure draft on Rate Regulated Activities includes an IFRS 1 exemption which would allow the Fund to use the carrying amount of rate regulated property, plant and equipment, as calculated under Canadian GAAP, as the deemed cost for IFRS on the date of adoption. This would reduce changes to property, plant and equipment on adoption and if it is available, the Fund expects to use this exemption. Model financial statement disclosures under IFRS will be developed for the Fund in the first half of 2010.

#### Information Systems and Business Processes

In January 2010, changes were implemented to information systems and processes which ensure that data needed for IFRS reporting of 2010 financial information for comparative purposes is gathered.

Enbridge has also developed processes to derive the 2010 opening balance sheet under IFRS and is building processes and systems solutions to create 2010 IFRS compliant quarterly financial information for comparative purposes.

During the first quarter of 2010, Enbridge will determine the systems solution which will be implemented in 2011 to support and sustain IFRS changes after conversion. Process changes needed to sustain IFRS conversion starting in 2011 have been identified and during 2010, process design and training is expected to be completed. Related impacts to internal controls over financial reporting and disclosure controls and procedures are expected to be identified during 2010.

#### Training and Communication

Enbridge has a comprehensive plan to train internal personnel who will be impacted by the conversion to IFRS. Training started during 2009 and is expected to continue throughout 2010. An external communication plan is also being developed, and will vary depending on the nature and magnitude of changes to the financial statements expected under IFRS.

#### Business Activities

The effects of IFRS conversion on the Fund's debt covenants and hedging activities have been reviewed. It is not expected that the conversion to IFRS will significantly impact these activities or requirements.

The expected timing of key activities identified above may change prior to the IFRS conversion date due to changes in regulation, economic conditions or other factors and the issuance of new accounting standards or amendments to existing accounting standards including, and in addition to, those noted above.

# Controls and Procedures

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed with, or submitted to, securities regulatory authorities is recorded, processed, summarized and reported within the time periods specified under Canadian securities law. Based on the requirements of National Instrument 52-109 of the Canadian Securities Administrators, EMSI, the Administrator of the Fund, under the supervision of the President and Chief Financial Officer of the Administrator, evaluated the effectiveness of the Fund's disclosure controls and procedures (as defined in National Instrument 52-109). Based on that evaluation, EMSI concluded that the Fund's disclosure controls and procedures were effective as of December 31, 2009.

## MANAGEMENT'S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Administrator of the Fund is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the rule of the Canadian Securities Administrators. The Fund's internal control over financial reporting is a process designed, under the supervision and with the participation of executive and financial officers of the Administrator of the Fund, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Fund's financial statements for external reporting purposes in accordance with Canadian GAAP.

The Fund's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Fund;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Fund's assets that could have a material effect on the financial statements.

The Fund's internal control over financial reporting may not prevent or detect all misstatements because of the inherent limitations of any control system. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Fund's policies and procedures.

The Administrator of the Fund assessed the effectiveness of the Fund's internal control over financial reporting as of December 31, 2009, based on the framework established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Administrator concluded that the Fund maintained effective internal control over financial reporting for the year ended December 31, 2009.

During the year ended December 31, 2009, there has been no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

# Supplementary Information

## OUTSTANDING UNIT DATA

	Number of Units Outstanding
Trust Units	34,625,000
ECT Preferred Units	38,023,750

Outstanding unit information is provided as at February 1, 2010.

## MANAGEMENT'S REPORT

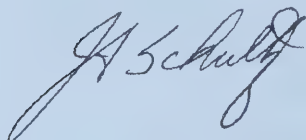
### To the Unitholders of Enbridge Income Fund

The management of Enbridge Management Services Inc. is responsible for the accompanying consolidated financial statements and all other information in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include amounts that reflect management's judgment and best estimates. Financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

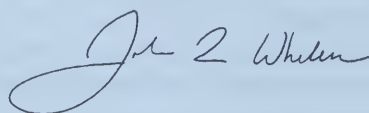
To meet its responsibility for reliable and accurate financial statements, management has established or assumed responsibility for monitoring systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded from loss or unauthorized use and transactions are executed in accordance with management's authorization. The internal control system includes an internal audit function as well as monitoring of an established code of business conduct.

The Board of Trustees and the Audit Committee are responsible for all aspects related to governance of the Fund. The Audit Committee, composed of independent and financially literate directors, has a specific responsibility to oversee management's efforts to fulfil its responsibilities for financial reporting and internal controls related thereto. The Audit Committee meets regularly during the year with management, internal auditors and independent auditors to review the consolidated financial statements, Management's Discussion and Analysis, and Annual Information Form, as well as internal controls related thereto, prior to submission to the Board of Trustees for approval.

PricewaterhouseCoopers LLP, appointed by the unitholders as the Fund's independent auditors, conducts an examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards.



James A. Schultz  
President



John K. Whelen  
Vice President, Business Development &  
Chief Financial Officer

February 1, 2010

## AUDITORS' REPORT

### To the Unitholders of Enbridge Income Fund

We have audited the consolidated statements of financial position of Enbridge Income Fund (the "Fund") as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Enbridge Income Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants,  
Calgary, Alberta

February 1, 2010

## CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars, except per unit amounts)</i>		
Revenues	<b>314.8</b>	297.0
Expenses		
Operating and maintenance	<b>101.0</b>	93.4
Management and administrative	<b>9.7</b>	6.5
Depreciation and amortization	<b>91.3</b>	85.8
	<b>202.0</b>	185.7
	<b>112.8</b>	111.3
Other Income	<b>1.1</b>	7.5
Interest Expense <i>(Note 10)</i>	<b>(56.0)</b>	(59.9)
ECT Preferred Unit Distributions <i>(Note 11)</i>	<b>(43.8)</b>	(39.2)
	<b>14.1</b>	19.7
Income Tax (Expense)/Recovery <i>(Note 14)</i>	<b>(1.1)</b>	2.2
Earnings	<b>13.0</b>	21.9
Basic and Diluted Earnings per Trust Unit <i>(Note 13)</i>	<b>0.38</b>	0.63

*The accompanying notes are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Earnings	<b>13.0</b>	21.9
Other Comprehensive Income/(Loss)		
Change in unrealized gains/(losses) on cash flow hedges, net of tax	<b>6.0</b>	(4.6)
Reclassification of realized (gains)/losses on cash flow hedges to earnings, net of tax	<b>(0.5)</b>	1.2
	<b>5.5</b>	(3.4)
Comprehensive Income	<b>18.5</b>	18.5

*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Trust Units <i>(Note 13)</i>	<b>333.4</b>	333.4
Deficit at Beginning of Year	<b>(61.9)</b>	(48.1)
Earnings	<b>13.0</b>	21.9
Distributions to unitholders	<b>(39.9)</b>	(35.7)
Deficit at End of Year	<b>(88.8)</b>	(61.9)
Accumulated Other Comprehensive Loss at Beginning of Year	<b>(9.6)</b>	(6.2)
Other comprehensive income/(loss), net of tax	<b>5.5</b>	(3.4)
Accumulated Other Comprehensive Loss at End of Year	<b>(4.1)</b>	(9.6)
Total Unitholders' Equity	<b>240.5</b>	261.9

*The accompanying notes are an integral part of these consolidated financial statements.*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
<b>Cash Provided by Operating Activities</b>		
Earnings	13.0	21.9
Charges/(credits) not affecting cash		
Depreciation and amortization	91.3	85.8
Amortization of deferred financing charges	2.3	1.6
Amortization of fair value increment on debt	(4.5)	(4.9)
Future income taxes	0.4	(3.7)
Other	(1.1)	1.1
Changes in operating assets and liabilities		
Change in accounts receivable and other	0.3	(6.0)
Change in accounts payable and accrued liabilities	4.0	16.8
Change in deferred amounts and other assets	(5.6)	(16.6)
Change in long-term liabilities	(5.9)	2.4
Asset retirements	–	(0.3)
	94.2	98.1
<b>Investing Activities</b>		
Additions to property, plant and equipment	(40.2)	(51.8)
Additions to intangible assets	(0.2)	(4.6)
Change in construction payable	(0.7)	(7.2)
	(41.1)	(63.6)
<b>Financing Activities</b>		
Net change in long-term credit facility	115.5	(6.5)
Repayment of long-term debt	(100.0)	–
Net change in non-recourse long-term credit facility	(57.1)	39.1
Repayment of non-recourse long-term debt	(31.0)	(28.8)
Non-recourse long-term debt issues	59.4	–
Trust unit distributions <i>(Note 13)</i>	(39.6)	(35.7)
	(52.8)	(31.9)
Increase in Cash and Cash Equivalents	0.3	2.6
Cash and Cash Equivalents at Beginning of Year	17.3	14.7
Cash and Cash Equivalents at End of Year	17.6	17.3
Cash and Cash Equivalents	3.9	7.4
Cash and Cash Equivalents in Trust <i>(Note 15)</i>	13.7	9.9
	17.6	17.3
<b>Supplementary Cash Flow Information</b>		
Income taxes paid	2.2	3.8
Interest paid	57.2	63.2

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

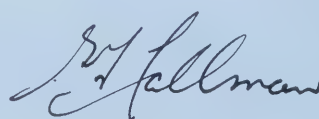
December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	17.6	17.3
Accounts receivable and other	38.5	38.8
	56.1	56.1
Property, Plant and Equipment, net <i>(Note 6)</i>	1,261.2	1,304.1
Intangible Assets <i>(Note 7)</i>	89.1	95.7
Goodwill	308.1	308.1
Deferred Amounts and Other Assets <i>(Note 3)</i>	194.6	90.7
Future Income Taxes <i>(Note 14)</i>	6.2	3.5
	1,915.3	1,858.2
<b>Liabilities and Unitholders' Equity</b>		
Current Liabilities		
Accounts payable and accrued liabilities	53.3	49.6
Distributions payable	3.3	3.0
Current portion of long-term debt <i>(Note 8)</i>	—	100.0
Current portion of non-recourse long-term debt <i>(Note 9)</i>	57.9	30.9
	114.5	183.5
Long-Term Debt <i>(Note 8)</i>	296.1	178.8
Non-Recourse Long-Term Debt <i>(Note 9)</i>	705.1	764.7
ECT Preferred Units <i>(Note 11)</i>	380.2	380.2
Long-Term Liabilities	3.2	18.3
Asset Retirement Obligations <i>(Note 12)</i>	12.4	10.9
Future Income Taxes <i>(Note 14)</i>	163.3	59.9
	1,674.8	1,596.3
Unitholders' Equity		
Trust units <i>(Note 13)</i>	333.4	333.4
Deficit	(88.8)	(61.9)
Accumulated other comprehensive loss	(4.1)	(9.6)
	240.5	261.9
	1,915.3	1,858.2

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Trustees of Enbridge Commercial Trust on behalf of Enbridge Income Fund:



Catherine M. Best  
Trustee



Gordon G. Tallman  
Trustee

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Nature and Description of the Fund

Enbridge Income Fund (the Fund) is an unincorporated open-ended trust established by a trust indenture under the laws of the Province of Alberta. The Fund commenced operations on June 30, 2003. Enbridge Management Services Inc. (EMSI), a wholly owned subsidiary of Enbridge Inc. (Enbridge), administers the Fund. EMSI also serves as the manager of Enbridge Commercial Trust (ECT), a subsidiary of the Fund.

The Fund conducts its business through three operating segments: Alliance Canada, Saskatchewan System and Green Power. These segments are strategic business units established along service lines by management to assess operational performance and to achieve the Fund's long-term objectives.

### ALLIANCE CANADA

Alliance Canada consists of the Fund's 50% interest in the Canadian portion of the 3,000 kilometre (km) Alliance System. The Alliance System, comprised of Alliance Canada and Alliance US, transports natural gas from supply areas in northwestern Alberta and northeastern British Columbia to delivery points near Chicago, Illinois. The Canadian portion includes approximately 1,560 km of the Alliance System's high-pressure, natural gas transmission system as well as its lateral pipeline system, which connects the mainline to a number of upstream receipt points, and related infrastructure.

### SASKATCHEWAN SYSTEM

The Saskatchewan System includes four crude oil and liquids pipeline systems: Saskatchewan Gathering, Westspur, Weyburn, and Virden. Together these systems include approximately 356 km of trunk line and 1,900 km of gathering pipeline with operating capacities ranging from 37,000 barrels of oil per day (bpd) to 255,000 bpd. As at December 31, 2009, expansion projects have been initiated that are expected to increase capacity across the system by approximately 125,000 bpd.

### GREEN POWER

Green Power includes the Fund's 33% to 50% interests in three wind power projects in Saskatchewan and southern Alberta. Green Power also includes the Fund's 50% interest in NRGreen, which operates waste heat recovery power generation facilities in Saskatchewan along the Alliance System.

### PROPOSED RESTRUCTURING

In November 2009, EMSI, the Fund's administrator, recommended to the Fund's Board of Trustees a restructuring of the Fund to take effect prior to the January 1, 2011 implementation of tax legislation impacting specified investment flow-through entities (SIFTs). The proposed restructuring would involve an exchange by public unitholders of their trust units, which collectively represent a 28% economic interest in the Fund, for shares of a taxable Canadian corporation to be called Enbridge Income Fund Holdings Inc., plus a small amount of cash. The Fund would cease to be a SIFT and would not be subject to the SIFT tax under the proposed restructuring.

The proposed restructuring would be subject to approval by unitholders and regulators, as applicable. A committee of independent trustees of the Fund, assisted by independent legal and financial advisors, is reviewing the proposal in light of potential alternatives and will provide its recommendation to public unitholders.

## 2. Summary of Significant Accounting Policies

The consolidated financial statements of the Fund have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Amounts are stated in Canadian dollars unless otherwise noted. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities in the financial statements. Significant estimates and assumptions used in preparation of the consolidated financial statements include, but are not limited to: carrying values of regulatory assets and liabilities (*Note 5*); depreciation rates and carrying value of property, plant and equipment (*Note 6*); amortization rates of intangible assets (*Note 7*); carrying value of goodwill; fair values of financial instruments (*Note 17*); and income taxes (*Note 14*). Actual results could differ from these estimates.

## **BASIS OF PRESENTATION**

The consolidated financial statements include the accounts of the Fund, its subsidiaries and its proportionate share of the accounts of its joint venture interests.

## **REGULATION**

Both Alliance Canada and the systems comprising the Saskatchewan System are subject to regulation by various authorities, including the National Energy Board (NEB), Saskatchewan Ministry of Energy and Resources (SMER) and Manitoba Innovation, Energy and Mines. Regulatory bodies exercise statutory authority over matters such as construction, rates and ratemaking and agreements with customers. In order to recognize the economic effects of the actions of the regulator, the timing of recognition of certain revenues and expenses in these operations may differ from that otherwise expected under GAAP for non rate-regulated entities.

Regulatory assets represent amounts that are expected to be recovered from customers in future periods through rates. Regulatory liabilities represent amounts that are expected to be refunded to customers in future periods through rates. In the absence of rate regulation, the Fund would not recognize regulatory assets or liabilities and the earnings impact would be recorded in the period the expenses are incurred or revenues are earned. Long-term regulatory assets are recorded in Deferred Amounts and Other Assets and current regulatory assets are recorded in Accounts Receivable and Other. Long-term regulatory liabilities are recorded in Long-Term Liabilities, whereas current regulatory liabilities are recorded in Accounts Payable and Accrued Liabilities. Regulatory assets are assessed for impairment if the Fund identifies an event indicative of possible impairment. The recognition of regulatory assets and liabilities is based on the actions, or expected future actions of the regulator. To the extent that the regulator's actions differ from the Fund's expectations, the timing and amount of recovery or settlement of regulatory balances could differ significantly from those recorded.

An Allowance for Funds Used During Construction (AFUDC) is included in the cost of property, plant and equipment and is depreciated over future periods as part of the total cost of the related asset. AFUDC includes both an interest component and, if approved by the regulator, a cost of equity component. In the absence of rate regulation, the Fund would capitalize only the interest component; therefore, the capitalized equity component, the corresponding earnings during the construction phase and the subsequent depreciation would not be recognized.

Certain regulators prescribe the pool method of accounting for property, plant and equipment where similar assets with comparable useful lives are grouped and depreciated as a pool. When those assets are retired or otherwise disposed of, gains and losses are not reflected in earnings but are booked as an adjustment to accumulated depreciation. Entities not subject to rate regulation write off the net book value of the retired asset and include any resulting gain or loss in earnings.

## **REVENUE RECOGNITION**

For businesses which are not rate-regulated, revenues are recorded when products have been delivered or services have been performed, the amount of revenue can be reliably measured and collectability is reasonably assured. Customer credit worthiness is assessed before contracts are signed as well as continuously through the duration of the contract.

The Saskatchewan Gathering and Westspur systems within the Saskatchewan System as well as Alliance Canada generate revenues under the cost of service model which is designed to provide toll revenues sufficient to recover prudently incurred costs of service as well as to provide an allowed return. Therefore, revenue is recognized at the amount that is expected to be recovered from shippers in future tolls under the cost of service model. Differences between the recorded transportation revenue and actual toll receipts give rise to regulatory receivable or payable balances.

Revenues from operating leases of certain Green Power assets are recognized on a straight-line basis over the term of the lease.

## **FINANCIAL INSTRUMENTS**

The Fund classifies financial assets and financial liabilities as held for trading, loans and receivables, other financial liabilities or instruments in qualifying hedging relationships. All financial instruments are initially recorded at fair value on the balance sheet. Subsequent measurement of the financial instrument is based on its classification. At December 31, 2009 and 2008, the Fund had no held to maturity or available for sale instruments.

## **Held for Trading**

Financial assets and liabilities that are classified as held for trading are measured at fair value with changes in fair value recognized in earnings. The Fund has classified cash and cash equivalents, the Alliance Canada investment in Master Asset Vehicle (MAV) notes and its non-qualifying derivative instruments as held for trading.

## **Loans and Receivables**

Loans and receivables, which include accounts receivable and other, are measured at amortized cost, using the effective interest rate method, net of any impairment losses recognized.

## **Other Financial Liabilities**

Other financial liabilities are recorded at amortized cost using the effective interest rate method and include accounts payable and accrued liabilities, distributions payable, long-term debt, non-recourse long-term debt and ECT Preferred Units.

## **Derivatives in Qualifying Hedging Relationships**

The Fund uses financial derivatives to manage changes in commodity prices and interest rates. Hedge accounting is optional and requires the Fund to document the hedging relationship and to test the hedging item's effectiveness in offsetting changes in the fair value or cash flow of the underlying hedged item on an ongoing basis. The Fund presents the earnings and cash flow effects of hedging items with the hedged transaction. Instruments in qualifying hedging relationships are categorized as cash flow hedges or fair value hedges. At December 31, 2009 and 2008, the Fund held no fair value hedges.

### **Cash Flow Hedges**

The Fund may use cash flow hedges to manage changes in power prices and interest rates. The effective portion of the change in the fair value of a cash flow hedging instrument is recorded in Other Comprehensive Income (OCI) and reclassified to earnings when the hedged item impacts earnings. Any hedge ineffectiveness is recorded in current period earnings with the hedged item.

If a derivative instrument designated as a cash flow hedge ceases to be effective or is terminated, hedge accounting is discontinued and the gain or loss at that date is deferred in OCI and recognized concurrently with the related transaction. Subsequent gains and losses from ineffective derivative instruments are recognized in earnings in the period in which they occur. If a hedged anticipated transaction is no longer probable, the gain or loss is recognized immediately in earnings.

## **Impairment**

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. If there is determined to be objective evidence of impairment, the Fund internally values the expected discounted cash flows using observable market inputs and determines whether the decline below carrying value is other than temporary. If the decline is determined to be other than temporary, an impairment charge is recorded in earnings with an offsetting reduction to the carrying value of the asset.

## **Transaction Costs**

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. The Fund incurs transaction costs primarily through the issuance of debt and classifies these costs with the related debt. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

## **INCOME TAXES**

Pursuant to the *Income Tax Act* (Canada) as presently enacted, the Fund and ECT, as trusts, are not subject to income taxes to the extent that income and taxable capital gains are paid or payable to unitholders. However, certain subsidiary corporations are taxable and applicable income and capital taxes have been reflected in these consolidated financial statements.

The liability method of accounting for income taxes is followed. Future income tax assets and liabilities are recorded based on temporary differences between the tax bases of assets and liabilities and their carrying values for accounting purposes. Future income tax assets are recognized only to the extent they are more likely than not to be realized in future periods. Future income tax assets and liabilities are measured using the tax rate that is expected to apply when the temporary differences reverse (*Note 3*).

## **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include short-term deposits with a term to maturity of three months or less when purchased. Cash and cash equivalents include amounts in trust, pursuant to Alliance Canada's financing agreements which require amounts for current principal and interest payments to be deposited into debt service trust accounts. Alliance Canada can only distribute funds in non-trust accounts to its partners.

## **PROPERTY, PLANT AND EQUIPMENT**

Expenditures for construction, expansion, major renewals and betterments are capitalized. Maintenance and repair costs are expensed as incurred. The Fund capitalizes interest incurred during construction.

Depreciation of property, plant and equipment is generally provided on a straight-line basis over the estimated service life of the assets commencing when the asset is placed in service. Certain pipeline assets in service within the Saskatchewan System are depreciated based on unit of throughput. Line fill is not depreciated.

## **IMPAIRMENT OF LONG-LIVED ASSETS**

The Fund reviews the carrying values of its long-lived assets as events or changes in circumstances warrant. If it is determined that the carrying value of an asset exceeds the undiscounted cash flows expected from the asset, the asset is written down to fair value.

## **INTANGIBLE ASSETS**

Intangible assets consist primarily of acquired long-term transportation service agreements (TSAs) with shippers on Alliance Canada, computer software and the production incentive agreements for several wind power projects. Intangible assets are amortized on a straight-line basis over their expected lives.

## **GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets upon acquisition of a business. Goodwill is not subject to amortization but is tested for impairment at least annually and written down to fair value if impairment occurs. For the purposes of impairment testing, reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business segment or a business unit within a business segment. Potential impairment is identified when the carrying value of a reporting unit, including allocated goodwill, exceeds its fair value. Goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

## **DEFERRED AMOUNTS**

Deferred amounts and other assets include costs that regulatory authorities have permitted or are expected to permit to be recovered through future rates.

## **ASSET RETIREMENT OBLIGATIONS**

Asset retirement obligations (AROs) associated with the retirement of long-lived assets are recognized and measured at fair value when they can be reasonably determined. The fair value approximates the cost a third party would charge in performing the tasks necessary to retire such assets and is recognized at the present value of expected future cash flows. AROs are added to the carrying value of the associated asset and depreciated over the asset's useful life. The corresponding liability is accreted over time through charges to earnings and is reduced by actual costs of decommissioning and reclamation. The Fund's estimates of retirement costs could change as a result of changes in timing and cost estimates as well as changes in regulatory requirements.

## **COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with the current year's financial statement presentation.

### 3. Changes in Accounting Policies

#### ACCOUNTING FOR THE EFFECTS OF RATE REGULATION

Effective January 1, 2009, the Fund adopted revisions to the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1100, *Generally Accepted Accounting Principles* and Section 3465, *Income Taxes*. The revisions to Section 3465 were applied retrospectively without restating prior periods. There was no material impact upon adoption of the revisions to Section 1100.

The adoption of revisions to Section 3465 did not impact the Fund's earnings or cash flows.

#### Income Taxes

The revised standard removed the exemption for rate-regulated enterprises to recognize future income taxes to the extent they were expected to be included in regulator-approved future rates and recovered from or refunded to future customers.

As a result of the revised standard for income taxes, on January 1, 2009, the Fund recognized a liability of \$120.2 million for future income taxes on regulated assets, primarily property, plant and equipment, along with an offsetting regulatory asset of \$120.2 million. The regulatory asset is recorded on the consolidated statement of financial position in Deferred Amounts and Other Assets.

At December 31, 2009, the Fund had a liability of \$98.2 million for future income taxes on regulated assets, primarily property, plant and equipment, with an offsetting regulatory asset of \$98.2 million. The decrease in the future income tax liability related to regulated assets between January 1, 2009 and December 31, 2009 was \$22.0 million, of which \$15.2 million related to changes in legislated income tax law.

#### INTANGIBLE ASSETS

Effective January 1, 2009, the Fund adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As a result of adopting this standard, the Fund has reclassified certain software costs from property, plant and equipment to intangible assets. This standard has been applied retrospectively and affects presentation only.

As a result of adopting this standard, on January 1, 2009, the Fund reclassified \$4.8 million of net software costs from property, plant and equipment to intangible assets. At December 31, 2009, the Fund had \$3.7 million of net intangible software costs.

#### CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS— DISCLOSURES AND PRESENTATION

Effective January 1, 2008, the Fund adopted new standards for Capital Disclosures (CICA Handbook Section 1535) and Financial Instruments – Disclosures and Presentation, sections 3862 and 3863. These standards resulted in additional disclosures.

#### FUTURE ACCOUNTING POLICY CHANGES

##### Business Combinations

The CICA issued Section 1582, *Business Combinations*, which replaces Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with International Financial Reporting Standards (IFRS). The standard requires assets and liabilities acquired in a business combination to be measured at fair value at the acquisition date. The standard also requires acquisition-related costs, such as advisory or legal fees, incurred to effect a business combination to be expensed in the period in which they are incurred. The adoption of the revised standard will impact the accounting treatment of future business combinations. The revised standard is effective for business combinations occurring on or after January 1, 2011; however, earlier application is permitted.

## 4. Segmented Information

Year ended December 31, 2009	Alliance Canada	Saskatchewan System	Green Power	Corporate	Consolidated
<i>(millions of Canadian dollars)</i>					
Revenues	224.7	78.8	11.3	–	314.8
Operating and maintenance	(59.4)	(38.3)	(3.3)	–	(101.0)
Management and administrative	–	–	–	(9.7)	(9.7)
Depreciation and amortization	(63.8)	(23.4)	(4.1)	–	(91.3)
	101.5	17.1	3.9	(9.7)	112.8
Other income/(expense)	1.0	(0.4)	0.4	0.1	1.1
Interest expense	(43.3)	–	(0.4)	(12.3)	(56.0)
ECT preferred unit distributions	–	–	–	(43.8)	(43.8)
Income tax recovery/(expense)	0.1	3.0	0.1	(4.3)	(1.1)
Earnings	59.3	19.7	4.0	(70.0)	13.0
Goodwill	308.1	–	–	–	308.1
Total assets	1,550.0	274.8	76.4	14.1	1,915.3
Additions to Property, Plant and Equipment	1.7	37.2	2.2	–	41.1
Year ended December 31, 2008	Alliance Canada	Saskatchewan System	Green Power	Corporate	Consolidated
<i>(millions of Canadian dollars)</i>					
Revenues	222.1	68.0	6.9	–	297.0
Operating and maintenance	(57.4)	(33.2)	(2.8)	–	(93.4)
Management and administrative	–	–	–	(6.5)	(6.5)
Depreciation and amortization	(62.4)	(20.1)	(3.3)	–	(85.8)
	102.3	14.7	0.8	(6.5)	111.3
Other income/(expense)	7.0	(0.2)	0.6	0.1	7.5
Interest expense	(46.3)	–	(0.4)	(13.2)	(59.9)
ECT preferred unit distributions	–	–	–	(39.2)	(39.2)
Income tax recovery/(expense)	0.1	3.0	0.1	(1.0)	2.2
Earnings	63.1	17.5	1.1	(59.8)	21.9
Goodwill	308.1	–	–	–	308.1
Total assets	1,496.7	278.0	78.2	5.3	1,858.2
Additions to Property, Plant and Equipment	16.1	29.8	5.9	–	51.8

## 5. Financial Statement Effects of Rate Regulation

### GENERAL INFORMATION ON RATE REGULATION AND ITS ECONOMIC EFFECTS

#### Alliance Canada

Shippers on the Alliance System entered into 15-year transportation contracts, expiring in December 2015, which set out the cost of service toll methodology used to calculate annual tolls. Alliance Canada is regulated by the NEB, with whom Alliance files toll adjustments annually. The tolls include a return on equity component of 11.26% (2008–11.26%) after tax and are based on a deemed 70% debt and 30% equity structure.

#### Saskatchewan System

The Saskatchewan Gathering System and the Westspur System are regulated by SMER and the NEB, respectively. Both systems follow the cost of service methodology. Toll rates are subject to change from time to time based on the differences between the estimated cost of service and actual costs incurred and include a 6.5% return on a semi-depreciated rate base.

The regulators do not regularly review or approve the rates established by the pipeline systems comprising the Saskatchewan System. However, in the event of a customer complaint, the regulator would review and provide a ruling on the rates in question.

### FINANCIAL STATEMENT EFFECTS

Accounting for rate-regulated entities has resulted in recognition of the following regulatory assets and liabilities:

December 31,	2009	2008	Estimated Settlement Period (years)	Earnings Impact <sup>1</sup>	
				2009	2008
<i>(millions of Canadian dollars)</i>					
Regulatory Assets/(Liabilities)					
Alliance Canada					
Deferred transportation revenue <sup>2</sup>	91.5	79.8	16	11.7	14.2
Transportation revenue adjustment <sup>3</sup>	(2.3)	(2.0)	1	(0.3)	(2.0)
Saskatchewan System					
Transportation revenue adjustment <sup>3</sup>	0.2	(0.3)	1	0.5	0.3

<sup>1</sup> The effect of rate regulation resulted in an increase/(decrease) in after tax reported earnings.

<sup>2</sup> Deferred transportation revenue is related to the cumulative difference between GAAP depreciation expense included in the financial statements of Alliance Canada and depreciation expense included in transportation tolls. Alliance Canada expects to recover this difference over a number of years when depreciation rates in the TSAs are expected to exceed the GAAP depreciation rates, beginning in 2012 and ending in 2025. This regulatory asset is not included in the rate base.

<sup>3</sup> The transportation revenue adjustment is the cumulative difference between actual expenses and estimated expenses included in transportation tolls. The transportation revenue adjustments are not included in the rate base.

### OTHER ITEM AFFECTED BY RATE REGULATION

#### Allowance for Funds Used During Construction (AFUDC)

To date, an equity component of \$67.6 million (2008–\$67.6 million) is included in property, plant and equipment.

#### Future Income Taxes

Effective January 1, 2009, the Fund adopted the revisions to CICA Handbook Section 3465, Income Taxes which removed the exemption for rate regulated enterprises to recognize future income taxes (see Note 3). Therefore, the following items relate solely to the prior year.

In the absence of rate regulation, future income tax liabilities of \$67.3 million associated with certain assets, primarily plant, property and equipment, would have been recorded in the year ended December 31, 2008. Accumulated unrecorded future income tax liabilities of \$21.8 million in 2008 relate to the regulatory deferral accounts identified above. In the absence of rate regulation, regulatory deferrals would not be recorded nor would the associated future income tax liabilities.

As a result of the tax impacts discussed above, earnings during the year ended December 31, 2008 would have increased by \$3.8 million in the absence of rate regulation.

## 6. Property, Plant and Equipment

December 31, 2009	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
<i>(millions of Canadian dollars)</i>				
Alliance Canada				
Pipeline in service	4.0%	1,249.1	(342.7)	906.4
Plant assets	19.3%	13.8	(11.1)	2.7
Other assets	23.5%	11.7	(1.6)	10.1
		1,274.6	(355.4)	919.2
Saskatchewan System				
Pipeline in service	6.6%	345.1	(110.6)	234.5
Line fill	–	7.4	–	7.4
Under construction	–	30.9	–	30.9
		383.4	(110.6)	272.8
Green Power				
Machinery and equipment	4.6%	76.8	(9.5)	67.3
Other assets	4.7%	2.1	(0.2)	1.9
		78.9	(9.7)	69.2
		1,736.9	(475.7)	1,261.2

December 31, 2008	Weighted Average Depreciation Rate	Cost	Accumulated Depreciation	Net
<i>(millions of Canadian dollars)</i>				
Alliance Canada				
Pipeline in service	4.0%	1,249.0	(285.9)	963.1
Plant assets	17.2%	12.3	(10.5)	1.8
Other assets	32.6%	11.7	(1.6)	10.1
		1,273.0	(298.0)	975.0
Saskatchewan System				
Pipeline in service	6.0%	335.2	(87.9)	247.3
Line fill	–	5.3	–	5.3
Under construction	–	5.7	–	5.7
		346.2	(87.9)	258.3
Green Power				
Machinery and equipment	4.6%	74.9	(5.8)	69.1
Other assets	5.3%	1.8	(0.1)	1.7
		76.7	(5.9)	70.8
		1,695.9	(391.8)	1,304.1

The cost and accumulated depreciation of property, plant and equipment under operating leases at December 31, 2009 was \$34.6 million and \$2.9 million, respectively (2008: cost—\$32.4 million, accumulated depreciation—\$1.2 million).

## 7. Intangible Assets

December 31, 2009	Weighted Average Amortization Rate	Cost	Accumulated Amortization	Net
<i>(millions of Canadian dollars)</i>				
Alliance Canada				
Long-term transportation agreements	4.4%	116.0	(33.5)	82.5
Software	31.0%	16.7	(13.1)	3.6
Saskatchewan System				
Software	30.2%	0.5	(0.4)	0.1
Green Power				
Production incentive agreements	8.4%	4.0	(1.1)	2.9
		137.2	(48.1)	89.1

December 31, 2008	Weighted Average Amortization Rate	Cost	Accumulated Amortization	Net
<i>(millions of Canadian dollars)</i>				
Alliance Canada				
Long-term transportation agreements	4.4%	116.0	(28.4)	87.6
Software	31.0%	16.5	(11.8)	4.7
Saskatchewan System				
Software	30.2%	0.5	(0.4)	0.1
Green Power				
Production incentive agreements	8.4%	4.0	(0.7)	3.3
		137.0	(41.3)	95.7

## 8. Long-Term Debt

December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Medium-Term Notes		
5.25% due December 22, 2014	90.0	90.0
4.19% due December 21, 2009	—	100.0
Third Party Credit Facilities	197.0	92.0
Affiliate Credit Facility	11.7	—
Deferred Financing Charges	(2.6)	(3.2)
Total Debt	296.1	278.8
Current Maturities	—	(100.0)
Long-Term Debt	296.1	178.8

### MEDIUM-TERM NOTES

The Medium-Term Note (MTN) due 2014 is unsecured and redeemable by the Fund prior to maturity, in whole or in part, at the option of the Fund at the applicable Government of Canada yield plus a premium. Interest on the MTN is payable semi-annually in June and December.

The MTN due 2009 was repaid in full in December 2009. As at December 31, 2008, the MTN was unsecured and redeemable by the Fund prior to maturity, in whole or in part, at the option of the Fund at the Government of Canada yield plus 0.14%. Interest was payable semi-annually in June and December.

At December 31, 2009, the Medium-Term Notes have a fair value of \$94.2 million (2008—\$180.5 million) based on quoted market prices.

## CREDIT FACILITIES

The available credit facilities, detailed below, provide the Fund with a total of \$300.0 million of combined credit facilities, exclusive of non-recourse credit facilities at operating affiliates. At December 31, 2009, \$1.4 million (2008—\$0.7 million) of letters of credit were outstanding under the Fund's credit facilities and \$89.9 million (2008—\$57.3 million) was undrawn and available. The weighted average interest rate on indebtedness incurred on all of the Fund's credit facilities for the year ending December 31, 2009 was 1.4%.

### Third Party Credit Facilities

The Fund has a \$150.0 million unsecured credit facility that matures on February 10, 2011. The Fund may receive advances on this facility up to an aggregate principal amount of the credit limit by requesting prime rate advances, United States dollar base rate advances, United States dollar LIBOR advances, letter of credit advances, bankers' acceptance advances, or by requesting bankers' acceptance equivalent loans. Interest is charged at a rate per annum, dependent on the type of advance requested plus applicable margin. The current applicable margins range from 0.0% to 0.53%.

In June 2009, the Fund arranged an additional \$50.0 million of unsecured committed revolving standby credit from a commercial bank. This facility has an initial revolving term of 364 days that is extendable annually. There is a one-year term-out at the end of the applicable revolving term. The Fund may receive advances on the new credit facility up to an aggregate principal amount of the credit limit by requesting prime rate advances, United States dollar base rate advances, LIBOR loans, and CDOR rate loans. Interest is charged at a rate per annum, dependent on the type of advance requested plus applicable margin. The current applicable margins range from 1.5% to 2.75%.

### Affiliate Credit Facility

In June 2009, Enbridge Inc., an affiliated entity of the Fund's administrator, provided the Fund with a \$100.0 million unsecured credit facility, the terms of which are identical in all material respects to the newly secured \$50.0 million bank facility discussed above.

In December 2009, the third party and affiliate credit facilities were drawn on in part to finance the repayment of the \$100.0 million MTN which matured on December 21, 2009.

## 9. Non-Recourse Long-Term Debt

December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Alliance Canada		
Bank credit facility	1.0	57.5
Senior notes		
7.230% due 2015	98.2	113.2
4.928% due 2019	60.0	—
7.181% due 2023	165.7	168.2
5.546% due 2023	100.4	100.4
7.217% due 2025	132.5	134.8
6.765% due 2025	151.4	162.4
NRGreen		
Bank credit facility	24.0	24.6
	733.2	761.1
Fair Value Increment on Long-Term Debt Acquired	33.7	38.2
Deferred Financing Charges	(3.9)	(3.7)
Total Non-Recourse Debt	763.0	795.6
Current Portion of Non-Recourse Debt	(57.9)	(30.9)
Non-Recourse Long-Term Debt	705.1	764.7

Non-recourse long-term debt maturities for the years ending December 31, 2010 through 2014 are \$57.9 million, \$36.3 million, \$39.9 million, \$39.9 million, and \$41.7 million, respectively, and \$517.5 million thereafter.

At December 31, 2009, Alliance Canada senior notes have a fair value of \$727.1 million (2008–\$756.7 million) based on quoted market prices.

### **ALLIANCE CANADA BANK CREDIT FACILITY**

Alliance Canada maintains an unsecured committed extendible revolving credit facility in the amount of \$200.0 million with an expansion provision to facilitate timely increases of the facility to \$300.0 million if required. The facility agreement contains provisions for an extension of one additional year on each anniversary of the closing date. The existing credit facility matures on June 28, 2012.

Interest is accrued and payable based on bankers' acceptance rates, plus applicable margins, for terms not exceeding six months. The weighted average interest rate on the facility for the year ending December 31, 2009 was 1.1%.

At December 31, 2009, Alliance Canada's credit facility had \$80.0 million (2008–\$80.0 million) of letters of credit outstanding and \$118.0 million (2008–\$5.0 million) in undrawn credit available, of which the Fund's proportionate share is 50%. The outstanding letters of credit secure six months of interest and principal payments on Alliance Canada's senior notes.

### **ALLIANCE CANADA AFFILIATE CREDIT FACILITY**

In July 2009, Alliance Canada entered into a 365 day unsecured operating facility with Alliance Pipeline L.P., an affiliated entity. The facility allows Alliance Canada to borrow up to US\$20 million on similar terms to those Alliance Canada would receive from commercial banks in Canada. Interest will be charged on amounts outstanding under the facility, at the LIBOR rate plus applicable margins. As at December 31, 2009, Alliance Canada has not drawn on the new facility, of which the Fund's proportionate share is 50%.

### **NEW ALLIANCE CANADA SENIOR NOTES**

On December 16, 2009, Alliance Canada issued \$120.0 million of unsecured senior notes due in 2019 at an interest rate of 4.928%, of which the Fund's proportionate share is 50%. Interest on the senior notes is payable semi-annually in arrears on June 16 and December 16 of each year. The bonds are non-amortizing with the entire principal due and payable upon maturity.

### **EXISTING ALLIANCE CANADA SENIOR NOTES**

The Fund recorded the senior notes at their fair value on the date of acquisition of its interest in Alliance Canada. The difference between the fair value and the principal amount of the debt is amortized using the effective interest method over the remaining life of the debt. The senior notes are non-recourse to the Fund as security provided by Alliance Canada is limited to the rights and assets of Alliance Canada and does not extend to the rights and assets of the Fund.

The senior notes may be redeemed by Alliance Canada at any time at a price equal to the greater of (i) the applicable Government of Canada yield price plus a premium and (ii) par, together with accrued interest. Alliance Canada may be required to redeem the senior notes, in whole or in part, from proceeds received under insurance claims or other claims for damages if the proceeds are not applied to repair or rebuild the Alliance pipeline system.

Interest on the senior notes is payable semi-annually in June and December. Principal repayments are closely tied to the recovery rates for depreciation contained in the TSAs.

Certain assets of Alliance Canada are pledged as collateral to Alliance Canada's lenders and to the lenders to Alliance Pipeline US. Alliance Canada's long-term debt is collateralized by a first priority perfected security interest in Alliance Canada's TSAs with its shippers, Alliance Canada's NEB permit, certain other material contracts, the trust accounts into which Alliance Canada's transportation revenue is deposited and a floating charge debenture over Alliance Canada's real property and tangible personal property. Alliance Canada is required to meet certain financial conditions and adhere to certain covenants on an ongoing basis. As at December 31, 2009 and 2008, Alliance Canada is compliant with all conditions and covenants.

## NRGREEN BANK CREDIT FACILITY

NRGreen's credit facilities consist of a revolving credit facility of \$52.5 million and an operating credit facility of \$5.0 million. The operating credit facility is an extendible revolving facility that matures on August 31, 2011 and is subject to one year extension requests on August 31<sup>st</sup> of each year. The revolving credit facility matures in 2010. However, as part of a request to extend the term of the operating credit facility, NRGreen may request to convert part or all of the revolving credit facility into the operating credit facility.

Interest is accrued and payable based on bankers' acceptance rates, plus applicable margins, for terms not exceeding six months. The weighted average interest rate on the facility for the year ended December 31, 2009 was 1.12%.

At December 31, 2009, NRGreen had \$9.4 million (2008—\$8.4 million) in undrawn credit available, of which the Fund's proportionate share is 50%.

The facility is secured by a first ranking floating charge over all property of NRGreen, which includes the four waste heat recovery facilities and an assignment of material contracts. The NRGreen credit facility is non-recourse to the Fund as security provided by NRGreen is limited to the rights and assets of NRGreen and does not extend to the rights and assets of the Fund.

## 10. Interest Expense

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Interest expense on:		
Long-term debt	10.2	12.5
Non-recourse long-term debt	47.7	51.1
Amortization of deferred financing fees and bank charges	3.0	1.7
Capitalized interest	(0.3)	(0.5)
Amortization of the fair value increment on debt	(4.6)	(4.9)
	56.0	59.9

Interest capitalized in 2009 was \$0.3 million and related to the construction on Phase II of the Saskatchewan System Capacity Expansion (2008—\$0.5 million of interest was capitalized related to the Westspur Expansion, Phase I of the Saskatchewan System Capacity Expansion).

Interest obligations on long-term debt for each of the years ending December 31, 2010 through 2014 are \$4.7 million.

Interest obligations on non-recourse long-term debt for the years ending December 31, 2010 through 2014 are \$47.4 million, \$44.4 million, \$41.9 million, \$39.2 million and \$36.4 million, respectively.

## 11. ECT Preferred Units

The ECT preferred units are entitled to non-cumulative monthly distributions in an amount equal to the monthly distribution per trust unit. The ECT preferred units have no voting rights except in limited circumstances and mature on June 30, 2033, at which time ECT is obligated to redeem all of the outstanding ECT preferred units for a price of \$10 per preferred unit. At December 31, 2009 and 2008, 38,023,750 ECT preferred units were outstanding. Cash distributions of \$43.8 million (2008—\$39.2 million) were declared on the ECT preferred units during the year ended December 31, 2009.

The ECT preferred units provide the holder with the option to request redemption based on a redemption price that is referenced to the market value of a trust unit. Upon request by the holder and satisfaction of the necessary conditions, including financing on terms acceptable to independent ECT Trustees, the ECT preferred units will be repurchased for cancellation by ECT with a repurchase price per ECT preferred unit based on the net issue price realized from the sale (or that could be realized from the sale) of a trust unit to the public. This redemption is paid in cash and the Fund must use its best efforts to finance the redemption request through the issue of additional equity or debt. As a result, it is necessary to record the fair value of the redemption option at the date of issue. The redemption option was assigned a nil value at the time the Fund was created.

## 12. Asset Retirement Obligations

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Obligations at beginning of year	10.9	7.9
Liabilities incurred related to NRGreen waste heat facilities	0.7	–
Liabilities incurred with Westspur expansion	–	0.5
Revision to retirement date	–	2.1
Accretion expense	0.8	0.7
Liabilities settled	–	(0.3)
Obligations at end of year	12.4	10.9

A legal obligation exists for the retirement of certain assets within the Saskatchewan System and Green Power operating segments. During 2009, an asset retirement obligation was established for the four NRGreen waste heat facilities. The undiscounted amount of expected cash flows required to settle the asset retirement obligations related to assets in the Saskatchewan System and Green Power segments is estimated at \$43.0 million (2008–\$40.5 million) with the majority estimated to be settled beginning in the year 2026. The liability for the expected cash flows as recognized in the financial statements reflects a weighted average discount rate of 6.55%.

Although a legal obligation exists for costs associated with retirement of the Alliance Canada pipeline and certain other assets, it is not possible to make a reasonable estimate of AROs due to the indeterminate timing and scope of the asset retirements.

## 13. Trust Units

December 31,	2009		2008	
	Number of Units	Amount	Number of Units	Amount
<i>(millions of Canadian dollars except number of units)</i>				
Trust Units <sup>1</sup>	34,625,000	333.4	34,625,000	333.4

<sup>1</sup> 14,500,000 of these trust units are owned by Enbridge Inc.

Pursuant to the trust indenture, an unlimited number of trust units may be issued. Each unit represents an equal undivided beneficial interest in any distributions from the Fund and in the net assets in the event of termination or wind-up of the Fund. All units have equal rights and privileges.

Trust units are redeemable at any time at the option of the holder. The redemption price is equal to the lesser of 90% of the weighted average market price of the units during a 10 day period occurring immediately prior to the redemption date and the closing market price on the redemption date. The total amount payable by the Fund in respect of redemptions in any calendar month may not exceed \$0.1 million. To the extent that a unitholder is not entitled to receive cash upon the redemption of the trust units, the Fund may satisfy the redemption price by distributing a pro-rata number of ECT notes or other assets held by the Fund.

The Fund makes monthly distributions to unitholders of record on the last business day of each month. The amount of cash distributed monthly consists of all amounts received by the Fund including the income, interest, dividends, return of capital or other amounts, if any, from investments held by the Fund, less amounts that may be paid by the Fund in connection with any cash redemptions or repurchases of trust units and amounts which the administrator or the Trustees of ECT may withhold as reserves.

The distribution will not typically be adjusted in circumstances where a change in cash available for distribution is not considered to be recurring. In the event the Fund pursues activities which are consistent with the purposes of the Fund as outlined in the Trust Indenture, the Fund has the discretion to set aside reserves for such amounts, thereby reducing the percentage of cash available to be distributed. For the year ended December 31, 2009, the Fund declared \$39.9 million (2008–\$35.7 million) in cash distributions to trust unitholders.

## 14. Income Taxes

### INCOME TAX RATE RECONCILIATION

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Earnings before income taxes	14.1	19.7
Combined statutory income tax rate	29.0%	29.5%
Income taxes at statutory rate	4.1	5.8
Increase/(decrease) resulting from:		
Interest deductions of subsidiaries arising from intercorporate debt	(25.3)	(25.8)
Legislated tax changes on future income tax balances	(0.5)	0.1
Distributions on ECT preferred units	12.7	11.6
Deductions allocated to unitholders	6.5	5.8
Future income taxes related to regulated operations	3.6	0.3
Income tax expense/(recovery)	1.1	(2.2)
Effective income tax rate	7.7%	(11.2%)

### COMPONENTS OF FUTURE INCOME TAXES

December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Future income tax liabilities/(assets)		
Differences in accounting and tax bases of:		
Property, plant and equipment and intangible assets	123.5	74.5
Regulatory liabilities/(assets)	46.0	–
Fair value increment on long-term debt acquired	(8.7)	(10.1)
Asset retirement obligations	(2.7)	(2.9)
Cash flow hedges	(1.6)	(3.7)
Other	0.6	(1.4)
	157.1	56.4

On January 1, 2009, the Fund adopted a change in accounting standard that impacted the recognition of future income taxes as it relates to rate regulated activities. Effective January 1, 2009, future income tax balances arising primarily from property, plant and equipment are recognized, along with offsetting regulatory assets or liabilities to the extent such balances are expected to be included in future rates. Previously, neither the future income tax balance or associated regulatory asset or liability would have been recognized.

Current income taxes were \$0.7 million (2008–\$1.5 million). At December 31, 2009, the Fund does not have any remaining unused tax loss carryforwards. During the year ended December 31, 2008, the Fund recognized the benefit of federal unused loss carryforwards of \$6.4 million.

## 15. Joint Ventures

The Fund's proportionate share of the net assets, earnings, cash flows and financial position of its interests in joint ventures is summarized below.

### NET ASSETS

December 31,	Ownership Interest	2009	2008
<i>(millions of Canadian dollars)</i>			
Alliance Canada	50%	<b>676.3</b>	687.9
Green Power			
NRGreen	50%	<b>8.8</b>	8.5
Wind Power Assets	33% - 50%	<b>37.2</b>	39.2
		<b>722.3</b>	735.6

### EARNINGS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Revenues	<b>234.2</b>	230.8
Operating and maintenance	<b>(62.7)</b>	(59.1)
Depreciation and amortization	<b>(67.9)</b>	(65.4)
Interest expense	<b>(43.7)</b>	(46.7)
Other income and expense	<b>1.3</b>	7.3
Proportionate share of net earnings	<b>61.2</b>	66.9

### CASH FLOWS

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Cash provided by operating activities	<b>112.5</b>	118.3
Cash used in investing activities	<b>(9.2)</b>	(33.6)
Cash used in financing activities	<b>(100.8)</b>	(83.7)
Proportionate share of increase/(decrease) in cash and cash equivalents	<b>2.5</b>	1.0

### FINANCIAL POSITION

December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Current assets	<b>41.1</b>	38.1
Property, plant and equipment, net	<b>983.3</b>	1,045.3
Intangible assets	<b>89.0</b>	90.9
Goodwill	<b>308.1</b>	308.1
Deferred amounts and other assets	<b>96.2</b>	86.9
Current liabilities	<b>(73.6)</b>	(52.2)
Non-recourse long-term debt	<b>(705.1)</b>	(764.7)
Long-term liabilities	<b>(2.8)</b>	(2.8)
Asset retirement obligations	<b>(0.3)</b>	(0.3)
Future Income Taxes	<b>(13.6)</b>	(13.7)
Proportionate share of net assets	<b>722.3</b>	735.6

Included in the Fund's proportionate share of cash from Alliance Canada is \$13.7 million (2008—\$9.9 million) of cash held in trust. Under the terms of Alliance Canada's finance agreements, all funds received from shippers in settlement of transportation tolls, as well as interest earned on trust account balances, are segregated in trust accounts and first applied to meet debt service and operating requirements before distributions, if any, are made to the partners. At the completion of each fiscal quarter, Alliance Canada determines the amount of cash and cash equivalents necessary to satisfy this requirement and applies to have funds, if any, in excess of this amount transferred to a non-trust account. Only funds in non-trust accounts may be distributed to the partners of Alliance Canada.

## 16. Risk Management

### MARKET PRICE RISK

The Fund's earnings, cash flows and OCI are subject to movements in interest rates and commodity prices (collectively, market price risk). Risk management policies, processes and systems are in place to mitigate these risks. The following summarizes the types of market price risks to which the Fund is exposed, and the risk management instruments used to mitigate such risks.

#### Interest Rate Risk

The Fund is exposed to cash flow interest rate risk and fair value interest rate risk as a result of fluctuations in market interest rates. Cash flows are impacted by changes in market interest rates on the cost of variable rate debt and anticipated fixed rate debt issues. The Fund may enter into interest rate derivatives such as floating to fixed interest rate swaps and forward rate agreements to mitigate the interest rate risk associated with this debt. The fair value of existing fixed rate long-term debt is also impacted by changes in market interest rates. The Fund does not typically manage the fair value risk of its debt instruments as they are classified as financial liabilities and recorded at amortized cost.

A 1.0% increase in interest rates would have caused a \$12.2 million increase (2008–nil) in OCI for the year ended December 31, 2009 due to the revaluation of interest rate derivatives. The sensitivity has been calculated assuming a 1.0% shift in interest rates across the yield curve. If interest rates had been 1.0% higher during the 12 months ended December 31, 2009, after-tax earnings would have decreased by \$0.8 million (2008–\$0.7 million) due to higher interest expense on variable rate debt balances, excluding Alliance Canada. This would have been partially offset by an increase in earnings due to increased realized fair value gains on settled interest rate hedges of \$0.3 million (2008 – nil). The earnings of Alliance Canada are not sensitive to fluctuations in interest rates under its cost of service toll methodology. The total carrying value of the Fund's variable rate debt was \$233.8 million at December 31, 2009 (2008–\$174.1 million), of which \$1.0 million relates to Alliance Canada's variable rate debt (2008–\$57.5 million).

#### Commodity Price Risk

Commodity price risk is the risk of changes in cash flows or earnings due to changes in the market price of commodities. The Fund is exposed to movements in the price of power through its interest in certain wind power assets. To manage this exposure, the Fund uses fixed price power agreements that convert the floating price received when power is sold at a fixed rate.

For the year ended December 31, 2009, a \$5/MWh increase in the price of power would have increased after-tax earnings by \$0.2 million (2008–\$0.3 million) as well as decreased other comprehensive income by \$1.7 million (2008–\$1.7 million). In order to derive the impact of this change, the Fund used observable market inputs to derive future power prices, and discounted the expected cash flows.

### SUMMARY OF DERIVATIVE INSTRUMENTS USED FOR RISK MANAGEMENT

The Fund uses the following cash flow hedges to manage fluctuations in power prices and interest rates.

Year ended December 31, 2009	Notional Principal or Quantity	Fair Value Receivable/(Payable) <sup>1</sup>	Maturity	Unrealized Gains/ (Losses), net of tax <sup>2</sup>	Realized Gains, net of tax <sup>2</sup>
<i>(millions of Canadian dollars, unless otherwise noted)</i>					
Chin Chute Power Swap (MWh)	2.0	0.3	2017	6.0	0.2
Magrath Power Swap (MWh)	2.8	–	2024	2.8	0.2
Interest Rate Swaps	350.0	(4.3)	2010–2013	(3.1)	0.1
		(4.0)		5.7	0.5

<sup>1</sup> See Note 17 Financial Instruments for a description of the methodology used in deriving the fair value of these instruments.

<sup>2</sup> Changes in the fair value of effective cash flow hedging instruments are recorded in OCI and reclassified to earnings when the hedged item impacts earnings.

Year ended December 31, 2008	Notional Principal or Quantity (MW/H)	Fair Value Payable <sup>1</sup>	Maturity	Unrealized Losses, net of tax <sup>2</sup>	Realized Losses, net of tax <sup>2</sup>
<i>(millions of Canadian dollars, unless otherwise noted)</i>					
ChinChute Power Swap	2.0	(3.4)	2017	(1.5)	(0.6)
Magrath Power Swap	2.8	(8.1)	2024	(3.1)	(0.6)
		(11.5)		(4.6)	(1.2)

<sup>1</sup> See Note 17 Financial Instruments for a description of the methodology used in deriving the fair value of these instruments.

<sup>2</sup> Changes in the fair value of effective cash flow hedging instruments are recorded in OCI and reclassified to earnings when the hedged item impacts earnings.

Realized gains or losses on derivative instruments used as cash flow hedges are reported within revenues, for the power swaps, and interest expense, for the interest rate swaps, on the income statement. The current portion of the fair value payable of \$3.8 million and receivable of \$0.3 million (2008 – a payable of \$1.2 million) are included in accounts payable and accrued liabilities. The Fund estimates these current balances related to cash flow hedges within Accumulated Other Comprehensive Loss will be reclassified to earnings in the next 12 months. Actual amounts reclassified to earnings depend on the power prices and interest rates in effect when derivative contracts that are currently outstanding mature. The long-term portion of the fair value payable of \$0.5 million (2008 – a payable of \$10.3 million) is included in long-term liabilities.

## UNREALIZED GAINS AND LOSSES ON NON-QUALIFYING DERIVATIVES

If a derivative instrument is not an effective hedge for accounting purposes or is not designated as a hedging item, changes in the fair value of the derivative instrument are recorded in current period earnings. As at December 31, 2009, the Fund is party to a 1MW fixed to floating power swap as well as an offsetting 1MW floating to fixed power swap, both of which mature in 2017. As at December 31, 2008, the Fund had a 1MW floating to fixed power swap maturing 2017. The Fund recognized an unrealized derivative gain of \$0.6 million, net of tax, for the year ended December 31, 2009 (2008 – loss of \$0.5 million after tax) related to power purchase swap agreements not designated as hedging instruments. Gains and losses on the non-qualifying derivatives are reported in revenues. These instruments have a fair value payable of \$0.5 million at December 31, 2009 (2008 – \$1.7 million payable). The current and long-term portions of this payable are reported within accounts payable and accrued liabilities and long-term liabilities, respectively.

## LIQUIDITY RISK

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations, including commitments (see Note 20), as they become due. In order to manage this risk, the Fund forecasts its cashflow over the near and long term and ensures that sufficient funds will be available when required. The Fund's primary sources of liquidity and capital resources are cash provided by operating activities and the Fund's credit facilities and medium-term notes. The Fund maintains a current shelf prospectus with Canadian securities regulators, which enables, subject to market conditions, ready access to Canadian public capital markets. Cash from operations in combination with available committed standby credit facilities and planned debt capital markets funding is expected to be sufficient to meet the forecast liquidity and capital resource requirements of the Fund.

## Maturities of Financial Instruments

The Fund generally has no financial instruments, other than derivative instruments, maturing beyond one year with the exception of its long-term debt (Note 8) and non-recourse long-term debt (Note 9).

The Fund has estimated the following undiscounted cash flows will arise from its derivative instruments based on valuation at the balance sheet date:

	2010	2011	2012	2013	2014	Thereafter
<i>(millions of Canadian dollars)</i>						
Cash inflows	0.5	0.3	–	0.4	–	–
Cash outflows	(4.0)	(0.9)	(0.2)	(0.2)	(0.1)	(0.5)
Net cash flows	(3.5)	(0.6)	(0.2)	0.2	(0.1)	(0.5)

## CREDIT RISK

Entering into derivative financial instruments can result in exposure to credit risk. Credit risk arises from the possibility that a counterparty will default on its contractual obligations and is limited to those contracts where the Fund would incur a loss in replacing the instrument. The Fund enters into risk management transactions only with institutions that possess investment grade credit ratings. Credit risk relating to derivative counterparties is mitigated by utilization of credit exposure limits, contractual requirements and frequent assessment of counterparty credit worthiness. At December 31, 2009 the Fund does not have any material exposure to credit risk related to its derivative counterparties, as all material derivatives are in a payable position.

The Fund is exposed to credit risk through Alliance Canada's investment in the MAV notes. Due to the lack of active market for these instruments and the uncertainties regarding the fair value of the underlying assets, there is risk that Alliance Canada will not receive the carrying value for the instruments upon maturity. The fair value of the MAV notes are evaluated on a regular basis as outlined in Note 17, Fair Value of Financial Instruments.

Accounts receivable are also subject to credit risk. Generally, the Fund classifies receivables older than 30 days as past due. The maximum exposure to credit risk related to non-derivative financial assets is their carrying value, as disclosed in Note 17, Fair Value of Financial Instruments.

Alliance Canada's business is concentrated in the natural gas transportation industry and its revenue is dependent upon the ability of its shippers to pay their monthly demand charges. Alliance Canada limits, to some degree, its exposure to this credit risk by requiring its shippers to provide letters of credit or other suitable security unless they maintain specified credit ratings or can demonstrate equivalent financial strength. As at December 31, 2009, Alliance Canada held \$19.6 million in letters of credit and cash deposits as security from its shippers.

The Saskatchewan System's trade receivables consist primarily of amounts due from companies operating in the oil and gas industry. The credit risk associated with these receivables is mitigated by use of counterparty credit exposure limits and by requiring less creditworthy shippers to provide credit enhancement which may include letters of credit, posting of collateral, netting provisions or other contractual requirements.

Green Power is exposed to concentrations of credit risk since each project's primary source of fixed price revenue is a single counterparty. This risk is mitigated by the strong creditworthiness of the counterparties.

From time to time, accounts receivables and other financial assets are past due. The management and monitoring of these accounts is performed on an ongoing basis by each business. As at December 31, 2009 and December 31, 2008, accounts receivable in excess of 90 days represented less than 1% of the total balance.

## 17. Fair Value of Financial Instruments

The following table summarizes the Fund's financial instrument carrying and fair values and provides a reconciliation to the balance sheet.

December 31, 2009	Held for Trading	Loans and Receivables	Other Financial Liabilities	Derivatives	Non-Financial Instruments	Total	Fair Value <sup>1</sup>
<i>(millions of Canadian dollars)</i>							
<b>Assets</b>							
Cash and cash equivalents	17.6	—	—	—	—	17.6	17.6
Accounts receivable and other	—	37.2	—	—	1.3	38.5	37.2
Deferred amounts and other assets	4.8	—	—	—	189.8	194.6	4.8
<b>Liabilities</b>							
Accounts payable and accrued liabilities	—	—	45.3	3.6	4.4	53.3	48.9
Distributions payable	—	—	3.3	—	—	3.3	3.3
Long-term debt	—	—	296.1	—	—	296.1	302.9
Non-recourse long-term debt	—	—	763.0	—	—	763.0	789.0
ECT Preferred Units	—	—	380.2	—	—	380.2	505.7
Long-term liabilities	—	—	—	0.9	2.3	3.2	0.9

<sup>1</sup> Fair value does not include non-financial instruments.

December 31, 2008	Held for Trading	Loans and Receivables	Other Financial Liabilities	Derivatives	Non-Financial Instruments	Total	Fair Value <sup>1</sup>
<i>(millions of Canadian dollars)</i>							
<b>Assets</b>							
Cash and cash equivalents	17.3	—	—	—	—	17.3	17.3
Accounts receivable and other	—	37.4	—	—	1.4	38.8	37.4
Deferred amounts and other assets	5.0	—	—	—	85.7	90.7	5.0
<b>Liabilities</b>							
Accounts payable and accrued liabilities	—	—	44.3	1.5	3.8	49.6	45.8
Distributions payable	—	—	3.0	—	—	3.0	3.0
Long-term debt	—	—	278.8	—	—	278.8	272.5
Non-recourse long-term debt	—	—	795.6	—	—	795.6	781.3
ECT Preferred Units	—	—	380.2	—	—	380.2	394.3
Long-term liabilities	—	—	2.7	11.7	3.9	18.3	14.5

<sup>1</sup> Fair value does not include non-financial instruments.

The fair value of financial instruments reflects the Fund's best estimates based on generally accepted valuation techniques or models and supported by observable market prices and rates. When such prices are not available, the Fund uses discounted cash flow analysis from applicable yield curves based on observable market inputs. The fair value of financial instruments, other than derivatives, represents the amounts that would have been received from or paid to counterparties to settle these instruments at the reporting date.

The fair value of the Fund's long-term debt is based on quoted market prices for instruments of similar yield, credit risk and tenure.

The fair value of the Fund's derivative financial instruments and investment in the MAV notes through Alliance Canada reflects the Fund's best estimates of market value based on generally accepted valuation techniques or models and supported by observable market prices, if available, for commodities.

The fair value of other financial assets and liabilities other than derivative instruments approximate their cost due to their short term to maturity.

### **HELD FOR TRADING INVESTMENT**

In January 2009, Alliance Canada received various classes of MAV notes in exchange for Alliance Canada's investment in asset-backed commercial paper (ABCP) that was unable to be redeemed upon maturity in August 2007, due to the deterioration of liquidity in the ABCP market. The MAV notes consist of 48% MAV2 Class A-1 notes, 42% MAV2 Class A-2 notes, 7% MAV2 Class B notes and 3% MAV2 Class C notes. The Class A-1 and A-2 notes, which comprise 90% of the notes received, carry an "A" rating from DBRS and the Class B and Class C notes are not rated. The legal maturity of the notes is July 15, 2056, but the actual expected repayment of the notes, if held to maturity, is January 22, 2017. Upon exchange, Alliance Canada recognized the MAV notes at an estimated fair value of \$10.0 million, of which the Fund's share is \$5.0 million, or 50%.

The investment in the MAV notes is classified as held for trading and therefore, is measured at fair value. Due to the lack of an active market for the investment, there is uncertainty regarding the fair value of the assets underlying the MAV notes and the estimate of fair value may differ from the actual fair value that will be realized.

The Fund does not anticipate that the investment in the Master Asset Vehicle Notes will have any significant impact on Alliance Canada's operations or ability to meet upcoming debt obligations.

### **FAIR VALUE OF DERIVATIVES**

The Fund categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement.

#### **Level 1**

Level 1 includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. At December 31, 2009 and 2008, the Fund did not have any Level 1 assets or liabilities.

#### **Level 2**

Level 2 includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Financial instruments in this category are valued using models or other industry standard valuation techniques derived from observable market data. Such valuation techniques include inputs such as quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument. Instruments valued using Level 2 inputs include interest rate swaps and Alliance Canada's MAV notes.

#### **Level 3**

Level 3 includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value. Generally, Level 3 valuations are longer dated transactions, occur in less active markets, occur at locations where pricing information is not available, or have no binding broker quote to support Level 2 classification. Methodologies have been developed, benchmarked to industry standards, to determine the fair value for these contracts based on extrapolation of observable future prices and rates. Instruments valued using Level 3 inputs include the Chin Chute and Magrath power swaps.

When possible the estimated fair value is based on quoted market prices, and, if not available, estimates from third party brokers. For non-exchange traded derivatives classified in Levels 2 and 3, standard valuation techniques are used to calculate fair value. These methods include discounted cash flows for forwards and swaps. Primary inputs to these techniques include observable market prices (interest and commodity) and volatility, depending on the type of derivative and nature of the underlying risk. Inputs and data used by willing market participants are used when valuing derivatives, as well, the Fund's own credit default swap spread and those of its counterparties are used in the determination of fair value. Where possible the Fund uses observable inputs.

The Fund has categorized its financial instruments carried at fair value as follows:

December 31, 2009	Level 1	Level 2	Level 3	Total
<i>(millions of Canadian dollars)</i>				
Financial Liabilities:				
Current derivative liabilities	–	(3.8)	0.2	(3.6)
Long-term derivative liabilities	–	(0.5)	(0.4)	(0.9)
Total net derivative liability	–	(4.3)	(0.2)	(4.5)

December 31, 2008	Level 1	Level 2	Level 3	Total
<i>(millions of Canadian dollars)</i>				
Financial Liabilities:				
Current derivative liabilities	–	–	(1.5)	(1.5)
Long-term derivative liabilities	–	–	(11.7)	(11.7)
Total net derivative liability	–	–	(13.2)	(13.2)

Changes in the fair value of the net derivative liability classified as Level 3 in the fair value hierarchy were as follows:

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Balance at beginning of year	(13.2)	(7.8)
Total gains/(losses), realized and unrealized		
Included in earnings	1.8	(0.6)
Included in other comprehensive income	12.3	(6.5)
Purchases	(0.6)	–
Settlements	(0.5)	1.7
Balance at end of year	(0.2)	(13.2)

## 18. Capital Disclosures

The Fund defines capital as unitholders' equity (excluding AOCI), long-term debt (exclusive of transaction costs), and ECT Preferred Units, less cash and cash equivalents (net of proportionately consolidated cash and cash equivalents). Non-recourse debt, consisting of debt proportionately consolidated from joint venture interests, is excluded from the Fund's definition of capital as it is not controlled or managed exclusively by the Fund.

The Fund's capital is calculated as follows:

Year ended December 31,	2009	2008
<i>(millions of Canadian dollars)</i>		
Long-Term Debt <sup>1</sup>	298.7	282.0
Unitholders' Equity, net of AOCI	244.6	271.5
ECT Preferred Units	380.2	380.2
Cash and Cash Equivalents <sup>2</sup>	–	(2.6)
	923.5	931.1

<sup>1</sup> Includes the current portion of long-term debt and is exclusive of transaction costs.

<sup>2</sup> Excludes cash and cash equivalents of the Fund's joint venture interests.

The Fund balances several objectives when managing capital including:

- enabling its businesses to operate at the highest efficiency;
- providing liquidity and access to capital for growth opportunities; and
- providing returns and generating predictable cash flow for distribution to unitholders.

To promote access to capital and liquidity on reasonable terms, the Fund targets to maintain an investment grade credit rating. New capital can be raised through the issuance of short and long-term debt as well as equity securities. Taxation legislation limits the amount of additional equity that income trusts, including the Fund, can raise before 2011. The relative amount of debt and equity in the Fund's structure is managed with a view to adhering to such limits as well as maintaining credit metrics within parameters established by the rating agencies and lenders. The Fund's credit facilities include covenants that limit outstanding debt to a multiple of EBITDA (earnings before interest, taxes, depreciation and amortization). As at December 31, 2009 and 2008, the Fund was in full compliance with its covenants.

## 19. Related Party Transactions

All related party transactions are provided in the normal course of business and, unless otherwise noted, measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Alliance Canada has contracts with shippers who are also affiliates of the Fund through common ownership interests of Enbridge, a related party by virtue of its ECT Preferred Units and Trust Unit investment in the Fund. The Fund's share of Alliance Canada's revenue from affiliates for the year ended December 31, 2009 is \$13.3 million (2008-\$13.5 million) of which \$1.1 million (2008-\$1.1 million) was included in accounts receivable and other at December 31, 2009. The terms of these contracts are the same as those agreed to with independent third parties.

Administrative and operation services agreements allow for Alliance Canada to provide services to Alliance Pipeline US (an entity related to Alliance Canada by virtue of common ownership interests) in exchange for reimbursement of incurred costs or at rates consistent with those obtainable from independent third parties. Certain amounts reimbursed under the services agreements with Alliance Pipeline US also include a recovery of costs relating to the use of common administrative assets. The Fund's share of amounts charged to Alliance Pipeline US during the year ended December 31, 2009 was \$14.1 million (2008-\$12.7 million) of which \$1.4 million (2008-\$1.3 million) was included in accounts receivable and other as at December 31, 2009.

Administrative and facility support services are provided by Alliance Canada to Aux Sable Canada LP and Aux Sable Liquid Products LP, which are entities related to the Fund through common ownership. The Fund's share of amounts charged to Aux Sable Canada LP and Aux Sable Liquid Products LP during the year were \$0.2 million (2008-\$0.2 million) and \$0.1 million (2008-\$0.1 million), respectively. As at December 31, 2009, the Fund's accounts receivable and other included \$0.02 million (2008-\$0.01 million) and \$0.04 million (2008-\$0.03 million) owing from Aux Sable Canada LP and Aux Sable Liquid Products LP, respectively.

In July 2009, Alliance Canada entered into a 365 day unsecured operating facility with Alliance Pipeline L.P., an affiliated entity. The facility allows Alliance Canada to borrow up to US\$20 million, of which the Fund's proportionate share is 50%, on similar terms to those Alliance Canada would receive from commercial banks in Canada (Note 9).

The Saskatchewan System does not have any employees and uses the services of Enbridge, which has a 41.9% equity ownership interest in the Fund, for managing and operating the business. These services, which are charged at cost in accordance with service agreements, were \$18.0 million for 2009 (2008-\$15.5 million) of which \$1.5 million (2008-\$0.9 million) was included in accounts payable and accrued liabilities at December 31, 2009.

Certain wind power projects do not have any employees and use the services of Enbridge for managing and operating the business. These services, which are charged at cost, were \$0.4 million for 2009 (2008-\$0.3 million) with \$0.02 million included in accounts payable and accrued liabilities at December 31, 2009 (2008-\$0.02 million).

The Fund has a contract to sell all available emission reduction credits generated by the Fund's interest in the Chin Chute and Magrath projects to Enbridge. The contract has an initial 20-year term ending October 1, 2026 and provides for a fixed price of \$5 per tonne of avoided CO<sub>2</sub> emissions, based on a negotiated rate of converting megawatts generated to tonnes of emissions reduced, plus applicable taxes. The Fund earned \$0.3 million (2008–\$0.3 million) for the sale of these emission reduction credits in the year, with \$0.02 million included in accounts receivable and other at December 31, 2009 (2008–\$0.02 million).

One of the Fund's wind power projects has a long-term Power Purchase Agreement (PPA), expiring in 2024, with Enbridge Pipelines Inc., a wholly owned subsidiary of Enbridge. The terms of the PPA are for the sale of the project's total wind power production at a fixed price. Revenues of \$0.2 million (2008–\$0.8 million expense) related to this PPA are reported within the Fund's revenue for the year ended December 31, 2009. At December 31, 2009 there is a receivable of \$0.02 million (2008–\$0.06 payable) related to this PPA.

Under the management and administrative agreements with EMSI, a wholly owned subsidiary of Enbridge, an incentive fee is payable annually to EMSI equal to 25% of cash distributions above a base distribution level of \$0.825 per unit per year. During the year ended December 31, 2009, incentive fees were \$8.3 million (2008–\$5.3 million), of which \$8.3 million was included in accounts payable and accrued liabilities at December 31, 2009 (2008–\$4.7 million). In addition, a base fee of \$0.1 million is payable annually for providing administrative and management services and is included in accounts payable at December 31, 2009.

In June 2009, the Fund secured an incremental \$150.0 million of committed revolving standby credit in two separate facilities. Of the aggregate amount, \$100.0 million was provided by Enbridge, an affiliated entity of the Fund's Administrator. The remaining \$50 million was provided by a commercial bank. The \$100 million facility provided by Enbridge Inc. was identical in all material respects to the bank facility. At December 31, 2009 \$11.7 million was drawn on the \$100.0 million facility provided by Enbridge.

## 20. Commitments

At December 31, 2009, the Fund had operating lease obligations as detailed below:

	Total	Less than 1 year	2 years	3 years	4 years	5 years	After 6 years
<i>(millions of Canadian dollars)</i>							
Operating Leases	33.5	3.1	3.3	3.5	3.0	2.7	17.9

In March 2008, Alliance Canada entered into a service agreement with General Electric Canada. The contract is for maintenance activities on Alliance Canada's compressor equipment and expires in December 2015. The Fund's share of Alliance Canada's monthly commitments related to this contract is approximately \$1.0 million (US\$0.5 million and €0.3 million). The monthly fees may escalate annually based on an indexed price formula in the contract.

In August 2009, Alliance Canada signed an agreement for the replacement of the control units used to operate all compressors along the pipeline. The Fund's share of Alliance Canada's outstanding commitment under this contract is approximately \$3.7 million (€2.5 million). This project is expected to be completed by 2013.

## 21. Subsequent Events

### DISTRIBUTION BY THE FUND

On January 15, 2010, the Fund made a monthly cash distribution in the amount of \$0.096 per trust unit. A cash distribution of \$0.096 per unit was also paid on the same date on the ECT preferred units.

On January 18, 2010, the Fund declared a monthly cash distribution in the amount of \$0.096 per trust unit to unitholders of record on January 29, 2010, which is payable on February 12, 2010. Cash distributions of \$0.096 per unit were also declared on the same date on the ECT preferred units.

# UNITHOLDER AND INVESTOR INFORMATION

## Ordinary Units

The ordinary units of Enbridge Income Fund are listed in Canada on the Toronto Stock Exchange and trade under the symbol "ENF.UN".

## Fund Trustee/Registrar and Transfer Agent

CIBC Mellon Trust Company  
600, 333 - 7th Avenue S.W.  
Calgary, Alberta T2P 2Z1  
Telephone: (403) 232-2400  
Toll free: (800) 387-0825  
Internet: [www.cibcmellon.com](http://www.cibcmellon.com)

## Fund Administrator

Enbridge Management Services Inc.  
3000, 425 - 1st Street S.W.  
Calgary, Alberta, Canada T2P 3L8  
Telephone: (403) 231-3900  
Facsimile: (403) 231-3920

## Auditors

PricewaterhouseCoopers LLP

## Tax Information

The Fund is a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Act"). Units in the Fund are qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans under the Act.

Cash distributions to unitholders include an income or taxable component and a return of capital component. The specific breakdown of distributions in a particular year will be provided to the unitholders after the end of the year.

Based on current operations, the Fund estimates that approximately 80% of cash to be distributed during 2010 will be included in the income of unitholders for tax purposes.

The taxable component will be mainly ordinary income for tax purposes although there will be a dividend component that will qualify for the dividend tax credit when received by an individual resident in Canada. The portion of a distribution that is considered a return of capital is not immediately taxable but rather reduces the unitholder's tax basis in the unit.

Holders and potential holders of Fund units should consult their own tax advisors with respect to their particular circumstances.

## Cash Distributions

Monthly distributions are normally made to unitholders of record as of the close of business on the last business day of each month, and are expected to be paid to unitholders on or about the 15th day of the following month. The following expected distribution dates for 2010 are subject to the distributions being declared by the Board of Trustees.

Record date	Payment date
December 31, 2009	January 15
January 29	February 12
February 26	March 15
March 31	April 15
April 30	May 14
May 31	June 15
June 30	July 15
July 30	August 13
August 31	September 15
September 30	October 15
October 29	November 15
November 30	December 15

## Dividend Reinvestment and Unit Purchase Plan

In June 2004, the Fund began a Distribution Reinvestment Plan (the "Plan"). Participants may elect, without brokerage fees, to automatically reinvest monthly distributions in additional units of the Fund. Details of the Plan are available on the Fund's website. Investors should contact their respective investment dealer to enroll.

In order to be eligible to participate in the Plan, unitholders must be resident in Canada and hold a minimum of 100 ordinary trust units. Unitholders resident outside of Canada will be entitled to participate in the Plan subject to applicable local law. U.S. residents and citizens are not eligible to participate.

## Executive Office

Enbridge Income Fund  
3000, 425 - 1st Street S.W.  
Calgary, Alberta, Canada T2P 3L8  
Telephone: (403) 231-3900

## Investor Inquiries

If you have inquiries regarding the following:

- additional financial or statistical information
- industry and company developments
- latest news releases or investor presentations

please contact Enbridge Investor Relations  
or visit Enbridge Income Fund's web site at  
[www.enbridgeincomefund.com](http://www.enbridgeincomefund.com).

## Investor Relations

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Enbridge Income Fund's ordinary units  
trade on the Toronto Stock Exchange  
under the symbol ENF.UN.

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